MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
For the Three Months Ended March 31, 2007

In the following discussion and analysis of our financial condition and results of operations, unless the context indicates or otherwise requires, references to "we," "us," "our" or "PLDT Group" mean the Philippine Long Distance Telephone Company and its consolidated subsidiaries, and references to "PLDT" mean the Philippine Long Distance Telephone Company, not including its consolidated subsidiaries (see Note 2 – Summary of Significant Accounting Policies and Practices to the accompanying unaudited consolidated financial statements for a list of these subsidiaries, including a description of their respective principal business activities).

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying unaudited consolidated financial statements and the related notes. Our financial statements, and the financial information discussed below, have been prepared in accordance with Philippine Financial Reporting Standards, which differ in certain significant respects from generally accepted accounting principles in the United States.

The financial information appearing in this report and in the accompanying unaudited consolidated financial statements is stated in Philippine pesos. All references to "pesos," "Philippine pesos" or "Php" are to the lawful currency of the Philippines; all references to "U.S. dollars," "US$" or "dollars" are to the lawful currency of the United States; all references to "Japanese yen," "JP¥" or "¥" are to the lawful currency of Japan and all references to "Euro" or "€" are to the lawful currency of the European Union. Translations of Philippine peso amounts into U.S. dollars in this report and in the accompanying unaudited consolidated financial statements were made based on the exchange rate of Php48.217 to US$1.00, the volume weighted average exchange rate at March 31, 2007 quoted through the Philippine Dealing System.

Some information in this report may contain forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933 and Section 21E of the U.S. Securities Exchange Act of 1934. We have based these forward-looking statements on our current beliefs, expectations and intentions as to facts, actions and events that will or may occur in the future. Such statements generally are identified by forward-looking words such as "believe," "plan," "anticipate," "continue," "estimate," "expect," "may," "will" or other similar words.

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We have chosen these assumptions or bases in good faith, and we believe that they are reasonable in all material respects. However, we caution you that forward-looking statements and assumed facts or bases almost always vary from actual results, and the differences between the results implied by the forward-looking statements and assumed facts or bases and actual results can be material, depending on the circumstances. When considering forward-looking statements, you should keep in mind the description of risks and cautionary statements in this report. You should also keep in mind that any forward-looking statement made by us in this report or elsewhere speaks only as at the date on which we made it. New risks and uncertainties come up from time to time, and it is impossible for us to predict these events or how they may affect us. We have no duty to, and do not intend to, update or revise the forward-looking statements in this report after the date hereof. In light of these risks and uncertainties, any forward-looking statement made in this report or elsewhere might not occur.

Financial Highlights and Key Performance Indicators

(in millions, except for operational data, exchange rates and earnings per common share)	March 31, 2007 (Unaudited)	December 31, 2006 (Audited)	Increase (Decrease) Amount	%
Consolidated Balance Sheets				
Total assets	Php251,597	Php241,892	Php9,705	4
Property, plant and equipment	164,492	164,190	302	–
Cash and cash equivalents and short-term investments	38,473	25,197	13,276	53
Total equity	104,245	104,523	(278)	–
Notes payable and long-term debt	74,913	80,154	(5,241)	(7)
Net debt[1] to equity ratio	0.35x	0.52x	–	–

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006 (Unaudited)	Increase (Decrease) Amount	%
Consolidated Statements of Income				
Revenues and other income	Php33,836	Php30,852	2,984	10
Expenses	20,525	19,580	945	5
Income before income tax	13,311	11,272	2,039	18
Net income attributable to equity holders of PLDT	8,575	8,581	(6)	–
Net income	8,731	8,762	(31)	–
Net income margin	26%	28%	–	–
Earnings per common share – basic	44.87	46.74	(1.87)	(4)
Consolidated Statements of Cash Flows				
Net cash provided by operating activities	Php25,001	Php15,404	Php9,597	62
Net cash used in investing activities	13,672	5,824	7,848	135
Capital expenditures	*5,937*	*4,908*	*1,029*	*21*
Net cash used in financing activities	5,934	3,971	1,963	49
Operational Data				
Number of cellular subscribers	25,483,459	20,899,631	4,583,828	22
Number of fixed line subscribers[2]	1,847,084	1,854,364	(7,280)	–
Number of broadband subscribers	327,467	145,193	182,274	126
Fixed Line	*152,645*	*101,195*	*51,450*	*51*
Wireless	*174,822*	*43,998*	*130,824*	*297*
Number of employees	26,058	20,134	5,924	29
Fixed Line	*8,702*	*9,160*	*(458)*	*(5)*
Wireless	*5,295*	*5,076*	*219*	*4*
Information and Communications Technology	*12,061*	*5,898*	*6,163*	*104*

Exchange Rates	Php per US$
March 31, 2007	Php48.217
December 31, 2006	49.045
March 31, 2006	51.158
December 31, 2005	53.062

(1) Net debt is derived by deducting cash and cash equivalents and short-term investments from total debt (notes payable and long-term debt).

(2) Previously set forth as number of fixed lines in service. 2006 was restated to reflect the effect of the change in parameters used to align with the PLDT Group's policy on subscriber count with the planned use of an integrated billing system for our subscribers.

Overview

We are the largest and most diversified telecommunications company in the Philippines. We have organized our business into three main segments:

- *Wireless* — wireless telecommunications services provided by Smart Communications, Inc., or Smart, and Pilipino Telephone Corporation, or Piltel, our cellular service providers; Smart Broadband, Inc., or Smart Broadband (formerly known as Meridian Telekoms, Inc., or Meridian), our wireless broadband provider; Wolfpac Mobile, Inc., or Wolfpac, our wireless content operator; Mabuhay Satellite Corporation, or Mabuhay Satellite, ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines, and Telesat, Inc., or Telesat, our satellite and very small aperture terminal, or VSAT, operators;

- *Fixed Line* — fixed line telecommunications services are primarily provided through PLDT. We also provide fixed line services through PLDT's subsidiaries PLDT Clark Telecom, Inc., Subic Telecommunications Company, Inc., PLDT-Maratel, Inc., PLDT Global Corporation, or PLDT Global, Piltel, Smart-NTT Multimedia, Inc., or SNMI and Bonifacio Communications Corporation, which together account for approximately 3% of our consolidated fixed line subscribers; and

- *Information and Communications Technology* — information and communications infrastructure and services for Internet applications, Internet protocol-based solutions and multimedia content delivery provided by PLDT's subsidiary ePLDT, Inc., or ePLDT; call center services provided under *ePLDT Ventus*, include Parlance Systems, Inc., or Parlance, and Vocativ Systems, Inc., or Vocativ; business process outsourcing, or BPO, provided by SPi Technologies, Inc., or SPi (consolidated on July 11, 2006); Internet access and gaming services provided by ePLDT's subsidiaries, Infocom Technologies, Inc., or Infocom, Digital Paradise, Inc., or Digital Paradise, Digital Paradise Thailand, Ltd., or Digital Paradise Thailand, netGames, Inc., or netGames, Airborne Access Corporation, or Airborne Access, Level Up!, Inc., or Level Up!; and e-commerce, and IT-related services provided by other investees of ePLDT, as discussed in *Note 9 – Investments in Associates* to the accompanying unaudited consolidated financial statements.

We registered total revenues and other income of Php33,836 million in the first quarter of 2007, an increase of Php2,984 million, or 10%, as compared to Php30,852 million in the same period in 2006, primarily due to an increase in our service revenues and other income by Php3,035 million and Php78 million, respectively.

Expenses increased by Php945 million, or 5%, to Php20,525 million in the first quarter of 2007 from Php19,580 million in the same period in 2006, largely resulting from increases in compensation and benefits, financing costs, and professional and other contracted services, partly offset by lower depreciation and amortization, and cost of sales.

Net income attributable to equity holders of PLDT decreased by Php6 million to Php8,575 million in the first quarter of 2007 from Php8,581 million in the same period in 2006. Basic earnings per common share decreased to Php44.87 in the first quarter of 2007 from Php46.74 in the same period in 2006 due to an increase in the weighted average number of common shares outstanding to 188.6 million in the first quarter of 2007 from 181.2 million in the same period in 2006.

Results of Operations

The table below shows the contribution by each of our business segments to our revenues and other income, expenses and net income for the three months ended March 31, 2007 and 2006. Most of our revenues are derived from our operations within the Philippines.

	Wireless		Fixed Line		ICT		Inter-segment Transactions	Total	
(in millions)									
For the three months ended March 31, 2007 (Unaudited)									
Revenues and other income	Php21,450		Php12,007		Php2,466		(Php2,087)	Php33,836	
Service	20,811		11,828		2,425		(2,052)	33,012	
Non-service	576		15		33		(11)	613	
Other income	63		164		8		(24)	211	
Expenses	10,866		9,430		2,316		(2,087)	20,525	
Income before income tax	10,584		2,577		150		–	13,311	
Net income for the period	6,894		1,678		159		–	8,731	
Net income attributable to equity holders of PLDT	6,729		1,678		168		–	8,575	
For the three months ended March 31, 2006 (Unaudited)									
Revenues and other income	19,670		12,269		872		(1,959)	30,852	
Service	18,944		12,151		813		(1,931)	29,977	
Non-service	679		13		53		(3)	742	
Equity share in net income of associates	–		–		2		–	2	
Other income	47		105		4		(25)	131	
Expenses	9,545		11,136		858		(1,959)	19,580	
Income before income tax	10,125		1,133		14		–	11,272	
Net income for the period	7,891		842		29		–	8,762	
Net income attributable to equity holders of PLDT	7,693		842		46		–	8,581	
Increase (Decrease)	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**Amount**	**%**
Revenues and other income	Php1,780	9	(Php262)	(2)	Php1,594	183	(Php128)	Php2,984	10
Service	1,867	10	(323)	(3)	1,612	198	(121)	3,035	10
Non-service	(103)	(15)	2	15	(20)	(38)	(8)	(129)	(17)
Equity share in net income of associates	–	–	–	–	(2)	(100)	–	(2)	(100)
Other income	16	34	59	56	4	100	1	80	61
Expenses	1,321	14	(1,706)	(15)	1,458	170	(128)	945	5
Income before income tax	459	5	1,444	127	136	971	–	2,039	18
Net income for the period	(997)	(13)	836	99	130	448	–	(31)	–
Net income attributable to equity holders of PLDT	(964)	(13)	836	99	122	265	–	(6)	–

Wireless

Revenues and Other Income

Our wireless business segment offers cellular services as well as wireless broadband, satellite, VSAT and other services.

The following table summarizes our service and non-service revenues and other income from our wireless business for the three months ended March 31, 2007 and 2006 by service segment:

	Three Months Ended March 31,					
					Increase (Decrease)	
	2007	%	2006	%	Amount	%
(in millions)			(Unaudited)			
Wireless services:						
Service Revenues						
Cellular	Php19,923	93	Php18,205	92	Php1,718	9
Wireless broadband, satellite, VSAT and others	888	4	739	4	149	20
	20,811	97	18,944	96	1,867	10
Non-service Revenues						
Sale of cellular handsets and SIM-packs	576	3	679	4	(103)	(15)
Other Income	63	–	47	–	16	34
Total Wireless Revenues and Other Income	Php21,450	100	Php19,670	100	Php1,780	9

Service Revenues

Our wireless service revenues increased by Php1,867 million, or 10%, to Php20,811 million in the first quarter of 2007 compared with Php18,944 million in the same period in 2006, mainly as a result of the growth in the cellular and wireless broadband subscriber base, an increase in international inbound revenues and a reduction in domestic interconnection costs due to a shift from off-network to on-network voice and data usage. As a percentage of our total wireless revenues and other income, service revenues contributed 97% and 96% in the first quarter of 2007 and 2006, respectively.

Cellular Service

Our cellular service revenues consist of:

- revenues derived from actual usage of the network by prepaid subscribers and any unused peso value of expired prepaid cards or electronic air time loads, net of content costs and discounts given to dealers;
- monthly service fees from postpaid subscribers, including: (1) charges for calls in excess of allocated free local calls; (2) toll charges for national and international long distance calls; (3) charges for text messages of our service customers in excess of allotted free text messages; and (4) charges for value-added services, net of related content provider costs;
- revenues generated from incoming calls and messages to our subscribers, net of interconnection expenses; fees from reciprocal traffic from international correspondents; and revenues from inbound international roaming calls for the service; and
- other charges, including those for reconnection and migration.

Our cellular service revenues in the first quarter of 2007 amounted to Php19,923 million, an increase of Php1,718 million, or 9%, from Php18,205 million in the same period in 2006. Cellular service revenues accounted for 96% of our wireless service revenues in the first quarter of 2007 and 2006.

As at March 31, 2007, Smart and Piltel cellular subscribers totaled 25,483,459, an increase of 4,583,828, or 22%, over their combined cellular subscriber base of 20,899,631 as at March 31, 2006. Prepaid subscribers accounted for 99% of our total subscriber base as at March 31, 2007 and 2006.

Prepaid and postpaid subscribers totaled 25,157,975 and 325,484 as at March 31, 2007, reflecting net subscriber activations of 1,301,154 and 6,921, respectively, in the first quarter of 2007.

Smart markets nationwide cellular communications services under the brand names *Smart Buddy, Smart Gold, addict mobile, Smart Infinity* and *Smart Kid prepaid. Smart Buddy* and *Smart Kid prepaid* are prepaid services while *Smart Gold, Smart Infinity* and *addict mobile* are postpaid services, which are all provided through Smart's digital network. Piltel markets its cellular prepaid service under the brand name *Talk 'N Text* which is provided through Smart's network.

In 2006, Smart focused on segmenting its market by offering sector-specific, value-driven packages such as *All Text* – a new variety of top-up service providing a fixed number of messages with prescribed validity periods. Offerings include *All Text 10 Bonus*, with a suggested retail price of Php12, which includes 10 messages to all networks plus five bonus on-network messages without expiration and *All Text 20*, which includes 100 on-network messages for Php20, with a validity period of one day. Effective March 24, 2007, *All Text 20* was replaced with *All Text Plus*, which offers 90 on-network messages plus 10 messages to all networks with one day validity period and is in effect until May 25, 2007. *All Text* also has a voice counterpart in *All Talk 20* which is a call package allowing three calls of up to three minutes each for local on-network calls, valid for one day. Other voice offerings include: (a) the *Flat Rate Plus Call* promotion, which allows a subscriber to make:
(1) an on-network call of up to three minutes for Php10 or extend the call to five minutes for Php15; or (2) an off-network call of up to two minutes for Php10 or extend the call up to three minutes for Php15, which replaced the *Flat Rate Call* service effective March 29, 2007; and (b) *Tipid Talk*, a call package which allows a subscriber to make four calls of up to 30 seconds each for local on-network calls, valid for one day for Php10 and another variant allowing four calls of up to 15 seconds each for local on-network calls, valid for one day for Php5.50. *All Text 10 Bonus, All Talk 20, Tipid Talk* and *Flat Rate Plus Call* are now permanent offerings. Smart also continues to offer *Smart 258*, a registration-based service which offers unlimited on-network text messaging in load denominations of Php15, Php30 and Php60 with corresponding expiration periods of 1, 2 and 4 days, respectively.

On January 18, 2007, Smart introduced *LAHATxt*, a top-up service which offers a bundle of text messages available to all networks. *LAHATxt 35* is available to all Smart prepaid subscribers and provides for 100 text messages to all networks for Php35 with a one day validity period. On the other hand, *Talk 'N Text* subscribers have *LAHATxt 20* which allows a subscriber to make 50 text messages to all networks for Php20, also valid for one day. A variant of the *All Text* promotion, *Gaantxt Plus* is specifically targeted at *Talk 'N Text* subscribers. For a load of Php10, the promotion gives 40 *Talk 'N Text* to *Talk 'N Text* messages plus five messages to all networks valid for one day. The *Gaantxt* Plus promotion is valid until May 31, 2007.

Smart likewise has in place various promotions to stimulate international usage. In June 2006, *Smart IDD Libre Text Abroad* was launched wherein subscribers earned one free international text for every minute of IDD calling. In October 2006, this was replaced by *International Budget Text* packages. These packages, which have a limited duration and a varying number of allowable messages, enable subscribers to send international text to pre-registered recipients of the subscriber's choice on supported overseas carriers.

Smart expanded its roster of services with the commercial launch of its 3G services in May 2006. These services include video calling, video streaming, high-speed Internet browsing and downloading of special 3G content, offered at rates similar to those of 2G services.

In February 2007, at the 3GSM Congress in Barcelona, Spain, Smart introduced the *Smart Remit*, a project which offers low-cost remittance services using its mobile phone-based financial services platform. This will enable migrant workers in the Middle Eastern and European countries to send remittances to the Philippines via SIM-based services using the services of Smart and its banking partners abroad.

In March 2007, Mediaquest Holdings, Inc., in cooperation with Smart, introduced the *Mobile TV* service using the Digital Video Broadcasting – Handheld, or DVB-H, platform via a test broadcast initially available in Metro Manila, Cebu and Davao. *Mobile TV* is a broadcast service that delivers real-time events through a digital TV signal optimized for mobile devices wherein programs can be simultaneously viewed by an unlimited number of subscribers, thus making television viewing conveniently available always.

The following table summarizes key measures of our cellular business as at and for the three months ended March 31, 2007 and 2006:

	Three Months Ended March 31,			
			Increase (Decrease)	
	2007	**2006**	**Amount**	**%**
(in millions)	(Unaudited)			
Cellular service revenues	Php19,923	Php18,205	Php1,718	9
By component	*19,391*	*17,647*	*1,744*	*10*
Voice	8,874	8,246	628	8
Data	10,517	9,401	1,116	12
By service type	*19,391*	*17,647*	*1,744*	*10*
Prepaid	17,962	16,486	1,476	9
Postpaid	1,429	1,161	268	23
Others[(1)]	*532*	*558*	*(26)*	*(5)*

(1) Refers to other non-subscriber-related revenues consisting primarily of inbound international roaming fees, revenues from Smart's public calling offices, revenues from Wolfpac and Smart Money Holdings Corporation and a small number of leased line contracts.

	March 31,			
			Increase	
	2007	**2006**	**Amount**	**%**
	(Unaudited)			
Cellular subscriber base	25,483,459	20,899,631	4,583,828	22
Prepaid	25,157,975	20,614,552	4,543,423	22
Smart	17,762,723	15,256,105	2,506,618	16
Piltel	7,395,252	5,358,447	2,036,805	38
Postpaid	325,484	285,079	40,405	14

	Three Months Ended March 31,			
			Increase (Decrease)	
	2007	2006	Amount	%
	(Unaudited)			
Systemwide traffic volumes (in millions)				
Calls (in minutes)	1,470	1,385	85	6
Domestic – outbound	872	868	4	–
International	598	517	81	16
Inbound	551	476	75	16
Outbound	47	41	6	15
Text messages	56,357	49,774	6,583	13
Standard	6,911	8,478	(1,567)	(18)
Bucket-Priced	48,810	40,631	8,179	20
Value-Added Services	636	665	(29)	(4)

Voice Services

Cellular revenues from voice services, which include all voice traffic and voice value-added services such as voice mail and international roaming, increased by Php628 million, or 8%, to Php8,874 million in the first quarter of 2007 from Php8,246 million in the same period in 2006 primarily due to an increase in domestic voice, international long distance and international voice roaming revenues, international inbound revenues, and a decrease in interconnection expense relating to domestic and international long distance calls. The increase in domestic and international outbound and inbound revenues may be attributed to increased traffic mainly on account of subscriber growth. The decrease in interconnection expense resulted from increased on-net voice usage brought about by bucket-priced promotions designed to encourage the use of on-net voice services.

Air time rates for postpaid subscribers vary depending on the type of postpaid plan selected by subscribers.

Data Services

Cellular revenues from data services, which include all text messaging-related services as well as value-added services, increased by Php1,116 million, or 12%, to Php10,517 million in the first quarter of 2007 from Php9,401 million in the same period in 2006. Cellular data services accounted for 53% of cellular service revenues in the first quarter of 2007 as compared to 52% in the same period in 2006.

The following table shows the breakdown of cellular data revenues for the three months ended March 31, 2007 and 2006:

	Thee Months Ended March 31,			
			Increase (Decrease)	
	2007	2006	Amount	%
(in millions)		(Unaudited)		
Text messaging				
Domestic	Php9,270	Php7,863	Php1,407	18
Standard	5,536	5,812	(276)	(5)
Bucket-Priced	3,734	2,051	1,683	82
International	365	434	(69)	(16)
	9,635	8,297	1,338	16
Value-added services				
Non-Zed(1)	507	613	(106)	(17)
*Smart Zed*TM	45	100	(55)	(55)
Smart Money	20	23	(3)	(13)
Mobile Banking	1	1	–	–
Roaming SMS, *Pasa Load*, MMS and WAP	309	367	(58)	(16)
	882	1,104	(222)	(20)
Total	Php10,517	Php9,401	Php1,116	12

(1) Value-added services developed by Smart on its own platform.

Text messaging-related services contributed revenues of Php9,635 million in the first quarter of 2007, an increase of Php1,338 million, or 16%, compared to Php8,297 million in the same period in 2006, and accounted for 92% and 88% of the total cellular data revenues in the first quarter of 2007 and 2006, respectively. The increase in revenues from text messaging-related services resulted mainly from Smart's various bucket-priced text promotional offerings. Text messaging revenues from the various bucket plans totaled Php3,734 million. Value-added services, which contributed revenues of Php882 million in the first quarter of 2007, decreased by Php222 million, or 20%, from Php1,104 million in the same period of 2006, primarily due to lower usage of *Non-Zed* and *Smart Zed*TM services, partially offset by higher usage of WAP and *Pasa Load* services in the first quarter of 2007 as compared to the same period in 2006.

Standard text messages totaled 6,911 million in the first quarter of 2007, a decrease of 1,567 million, or 18%, from 8,478 million in the same period in 2006 mainly due to a shift to bucket-priced text services. Bucket-priced text messages in the first quarter of 2007 totaled 48,810 million, an increase of 8,179 million, or 20%, as compared to 40,631 million in the same period in 2006.

Subscriber Base, ARPU and Churn Rates

Prepaid subscribers accounted for approximately 99% of our 25,483,459 subscribers as at March 31, 2007, while postpaid subscribers accounted for the remaining 1%. The cellular prepaid subscriber base grew by 22% to 25,157,975 as at March 31, 2007 from 20,614,552 as at March 31, 2006, whereas the postpaid subscriber base increased by 14% to 325,484 as at March 31, 2007 from 285,079 as at March 31, 2006.

Our net subscriber activations for the three months ended March 31, 2007 and 2006 were as follows:

	Three Months Ended March 31,			
			Increase	
	2007	2006	Amount	%
		(Unaudited)		
Prepaid				
Smart	880,281	111,987	768,294	686
Piltel	420,873	374,022	46,851	13
Postpaid	6,921	5,001	1,920	38
Total	1,308,075	491,010	817,065	166

Revenues attributable to our cellular prepaid service amounted to Php17,962 million in the first quarter of 2007, a 9% increase over the Php16,486 million earned in the same period in 2006. Prepaid service revenues in the first quarter of 2007 and 2006 accounted for 93% of voice and data revenues. Revenues attributable to Smart's postpaid service amounted to Php1,429 million in the first quarter of 2007, a 23% increase over the Php1,161 million earned in the same period in 2006, and accounted for 7% of voice and data revenues in 2007 and 2006.

The following table summarizes our cellular ARPUs for the three months ended March 31, 2007 and 2006:

	Three Months Ended March 31,							
	Gross		Increase (Decrease)		Net		Increase (Decrease)	
	2007	2006	Amount	%	2007	2006	Amount	%
				(Unaudited)				
Prepaid								
Smart	323	356	(33)	(9)	267	294	(27)	(9)
Piltel	228	245	(17)	(7)	187	207	(20)	(10)
Prepaid – Blended	295	328	(33)	(10)	244	272	(28)	(10)
Postpaid – Smart	2,045	1,867	178	10	1,483	1,386	97	7
Prepaid and Postpaid Blended	318	349	(31)	(9)	260	287	(27)	(9)

ARPU is computed for each month by dividing the revenues for the relevant services for the month by the average of the number of subscribers at the beginning and at the end of the month. Gross monthly ARPU is computed by dividing the revenues for the relevant services, gross of dealer discounts and allocated content-provider costs, including interconnection income but excluding inbound roaming revenues, by the average number of subscribers. Net monthly ARPU, on the other hand, is calculated based on revenues net of dealer discounts and allocated content-provider costs and interconnection income net of interconnection expense. ARPU for any period of more than one month is calculated as the simple average of the monthly ARPUs in that period.

Prepaid service revenues consist mainly of charges for subscribers' actual usage of their loads. Gross monthly ARPU for Smart prepaid subscribers in the first quarter of 2007 was Php323, a decrease of 9%, compared to Php356 in the same period in 2006. The average outbound domestic and international voice revenue per subscriber declined in the first quarter of 2007 compared to the same period in 2006, but was partly offset by an increase in the average text messaging revenue. On a net basis, ARPU in the first quarter of 2007 was Php267, a decrease of 9%, compared to Php294 in the same period in 2006. Gross monthly ARPU for *Talk 'N Text* subscribers in the first quarter of 2007 was Php228, a decrease of 7%, compared to Php245 in the same period in 2006. The decline was primarily attributable to the decrease in the average outbound domestic and international voice revenue per subscriber as well as the average inbound domestic voice revenue per subscriber partly offset by an increase in the average text messaging revenue per subscriber. On a net basis, ARPU in the first quarter of 2007 decreased by 10% to Php187 from Php207 in the same period in 2006.

Monthly ARPU for Smart's postpaid services is calculated in a manner similar to that of prepaid service, except that the revenues consist mainly of monthly service fees and charges on usage in excess of the monthly service fees.

Gross monthly ARPU for postpaid subscribers increased by 10% to Php2,045 while net monthly ARPU increased by 7% to Php1,483 in the first quarter of 2007 as compared to Php1,867 and Php1,386 in the same period in 2006, respectively. Prepaid and postpaid monthly gross blended ARPU was Php318 in the first quarter of 2007, a decrease of 9%, compared to Php349 in the same period in 2006. Monthly net blended ARPU decreased by 9% to Php260 in the first quarter of 2007 as compared to Php287 in the same period in 2006.

Our quarterly prepaid and postpaid ARPUs for the three months ended March 31, 2007 and 2006 were as follows:

	Prepaid				Postpaid	
	Smart		Piltel		Smart	
	Gross	**Net**	**Gross**	**Net**	**Gross**	**Net**
			(Unaudited)			
2007						
First Quarter	Php323	Php267	Php228	Php187	Php2,045	Php1,483
2006						
First Quarter	Php356	Php294	Php245	Php207	Php1,867	Php1,386
Second Quarter	344	294	234	202	1,920	1,414
Third Quarter	323	280	213	184	1,891	1,403
Fourth Quarter	332	286	213	184	1,939	1,425

Churn, or the rate at which existing subscribers have their service cancelled in a given period, is computed based on total disconnections in the period, net of reconnections in the case of postpaid subscribers, divided by the average of the number of subscribers at the beginning and at the end of a month, all divided by the number of months in the same period.

We recognize a prepaid cellular subscriber as an active subscriber when that subscriber activates and uses the SIM card in the subscriber's handset, which contains pre-stored air time. The pre-stored air time, equivalent to Php1 plus 50 free SMS, can only be used upon purchase or reload of air time of any value. Subscribers can reload their air time by purchasing prepaid "call and text" cards; by purchasing additional air time "over the air" via *Smart Load* or *Smart Load* "All Text"; and by receiving loads of Php2, Php5, Php10 and Php15 via *Pasa Load*, or through their handsets using *Smart Money*. Reloads have validity periods ranging from one day to two months, depending on the amount reloaded. A prepaid cellular subscriber is disconnected if the subscriber does not reload within four months after the full usage or expiry of the last reload. Our current policy is to recognize a prepaid subscriber as "active" only when the subscriber activates and uses the SIM card and reloads at least once during the month of initial activation or in the immediate succeeding month.

For Smart prepaid, the average monthly churn rate for the first quarter of 2007 was 2.7% compared to 3.4% in the same period in 2006, while the average monthly churn rate for *Talk 'N Text* subscribers was 3.4% in the first quarter of 2007 compared to 3.7% in the same period in 2006.

The average monthly churn rate for Smart's postpaid subscribers for the first quarter of 2007 was 1.1% compared to 1.3% in the same period in 2006. Smart's policy is to redirect outgoing calls to an interactive voice response system if the postpaid subscriber's account is either 45 days overdue or the subscriber has exceeded the prescribed credit limit. If the subscriber does not make a payment within 44 days of redirection, the account is disconnected. Within this 44-day period, a series of collection activities are implemented, involving the sending of a collection letter, call-out reminders and collection messages via text messaging.

Wireless Broadband, Satellite, VSAT and Other Services

Our revenues from wireless broadband, satellite, VSAT and other services consist mainly of wireless broadband service revenues for Smart Broadband, rentals received for the lease of Mabuhay Satellite's transponders and Telesat's VSAT facilities to other companies, charges for ACeS Philippines' satellite phone service and service revenues generated from PLDT Global's subsidiaries. Gross revenues from these services for the first quarter of 2007 amounted to Php888 million, an increase of Php149 million, or 20%, from Php739 million in the same period in 2006 principally due to the growth in our wireless broadband business partially offset by lower satellite transponder rental revenues.

Smart Broadband offers a number of wireless broadband services and had 163,799 subscribers as at March 31, 2007. *SmartBro*, the fixed wireless broadband service of Smart linked to Smart's wireless broadband-enabled base stations, allows people to connect to the Internet using an outdoor aerial antenna installed in a subscriber's home. Wireless broadband revenues contributed Php414 million in the first quarter of 2007, increasing by Php294 million, or 245%, from Php120 million in the same period in 2006.

We also offer *PLDT WeRoam*, a wireless broadband service, running on Smart's nationwide wireless network (using GPRS, EDGE and WiFi technologies) and PLDT's extensive IP infrastructure. Some of the recent enhancements to the service are the inclusion of international roaming in key roaming countries all over the world and national WiFi roaming access. Principally targeted to the corporate market, the service had 11,023 subscribers as at March 31, 2007 compared to 5,083 subscribers as at March 31, 2006 and contributed Php29 million to our data revenues, an increase of Php1 million, or 4%, from Php28 million in the same period in 2006.

Non-service Revenues

Our wireless non-service revenues consist of:

- proceeds from sales of cellular handsets; and
- proceeds from sales of cellular SIM-packs.

Our wireless non-service revenues decreased by Php103 million, or 15%, to Php576 million in the first quarter of 2007 as compared to Php679 million in the same period in 2006 primarily due to a lower volume of postpaid handsets sold and a lower average revenue per handset and SIM-pack, partly offset by a higher volume of prepaid handsets and SIM-packs sold in the first quarter of 2007.

Other Income

All other income/gains such as rental income and which do not fall under service and non-service revenues are included under this classification. Our wireless business segment generated other income of Php63 million in the first quarter of 2007, an increase of Php16 million, or 34%, as compared to Php47 million in the same period in 2006 largely due to a higher gain on the sale of fixed assets.

Expenses

Expenses associated with our wireless business in the first quarter of 2007 amounted to Php10,866 million, an increase of Php1,321 million, or 14%, from Php9,545 million in the same period in 2006. A significant portion of this increase was attributable to higher financing costs, depreciation and amortization, and rent, which was partially offset by lower cost of sales and provisions. As a percentage of our total wireless revenues and other income, expenses associated with our wireless business accounted for 51% and 49% in the first quarter of 2007 and 2006, respectively.

Cellular business expenses accounted for 94% of our wireless business expenses, while wireless broadband, satellite, VSAT and other business expenses accounted for the remaining 6% of our wireless business expenses in the first quarter of 2007 as compared to 95% and 5%, respectively, in the same period in 2006.

The following table summarizes the breakdown of our wireless-related expenses for the three months ended March 31, 2007 and 2006 and the percentage of each expense item to the total:

	Three Months Ended March 31,					
					Increase (Decrease)	
	2007	%	2006	%	Amount	%
			(Unaudited)			
(in millions)						
Wireless services						
Depreciation and amortization	Php2,925	27	Php2,576	27	Php349	14
Rent	1,989	18	1,702	18	287	17
Compensation and benefits[1]	1,216	11	1,042	11	174	17
Cost of sales	1,149	11	1,202	12	(53)	(4)
Maintenance	897	8	923	10	(26)	(3)
Selling and promotions	873	8	826	9	47	6
Professional and other contracted services	565	5	422	4	143	34
Taxes and licenses	354	3	347	4	7	2
Communication, training and travel	239	2	253	2	(14)	(6)
Insurance and security services	198	2	215	2	(17)	(8)
Provisions	109	1	158	2	(49)	(31)
Amortization of intangible assets	42	1	69	1	(27)	(39)
Financing costs	(32)	–	(421)	(4)	389	92
Other expenses	342	3	231	2	111	48
Total	Php10,866	100	Php9,545	100	Php1,321	14

(1) Includes salaries and benefits, incentive plan, pension and manpower rightsizing program, or MRP, costs.

Depreciation and amortization charges increased by Php349 million, or 14%, to Php2,925 million in the first quarter of 2007, principally due to an increase in our depreciable asset base mainly transmission facilities, broadband and 3G network, and customer-deployed equipment.

Rent expenses increased by Php287 million, or 17%, to Php1,989 million on account of an increase in domestic fiber optic network, or DFON, facilities leased by Smart from PLDT, as well as higher satellite transmission and site rental expenses. As at March 31, 2007, we had 4,390 GSM cell sites and 7,194 base stations, compared with 4,329 GSM cell sites and 6,411 base stations as at March 31, 2006.

Compensation and benefits expenses increased by Php174 million, or 17%, to Php1,216 million, primarily due to higher accrued bonuses, pension and other employee benefits of Smart, partly offset by lower accrued long-term incentive plan and MRP costs. Smart and subsidiaries' employee headcount increased by 221, or 4%, to 5,245 in the first quarter of 2007 as compared to 5,024 in the same period in 2006. For further discussion on our long-term incentive plan, please see *Note 21 –Employee Benefits* to the accompanying unaudited consolidated financial statements.

Cost of sales decreased by Php53 million, or 4%, to Php1,149 million due to a decrease in the average cost of phone kits and SIM-packs sold in the first quarter of 2007. The breakdown of cost of sales for our wireless business for the three months ended March 31, 2007 and 2006 is as follows:

	Three Months Ended March 31,			
			Decrease	
	2007	**2006**	**Amount**	**%**
		(Unaudited)		
(in millions)				
Cost of cellular handsets and SIM-packs sold	Php1,105	Php1,155	(Php50)	(4)
Cost of satellite air time and terminal units	44	47	(3)	(6)
	Php1,149	Php1,202	(Php53)	(4)

Maintenance expenses decreased by Php26 million, or 3%, to Php897 million mainly due to lower site repairs and maintenance costs for network facilities and IT software, and a decrease in fuel costs for power generation, partly offset by higher expenses for electricity consumption for cell sites and offices.

Selling and promotions increased by Php47 million, or 6%, to Php873 million due to higher advertising, promotions and commissions expenses.

Professional and other contracted services increased by Php143 million, or 34%, to Php565 million, primarily due to increased contracted service, consultancy and technical service, market research and call center service fees.

Taxes and licenses increased by Php7 million, or 2%, to Php354 million, primarily due to an increase in royalty and franchise fees, and higher non-creditable input tax, partly offset by lower business-related taxes and licenses.

Communication, training and travel expenses decreased by Php14 million, or 6%, to Php239 million due to lower foreign travel expenses incurred in the first quarter of 2007, partly offset by higher freight and hauling charges, and local travel expenses.

Insurance and security services decreased by Php17 million, or 8%, to Php198 million, primarily due to the decrease in site security expenses and lower charges on insurance contracts.

Provisions decreased by Php49 million, or 31%, to Php109 million primarily due to a lower level of write-down of slow-moving handsets to net realizable values. The breakdown of provisions for the three months ended March 31, 2007 and 2006 is as follows:

	Three Months Ended March 31,			
			Increase (Decrease)	
	2007	2006	Amount	%
		(Unaudited)		
(in millions)				
Doubtful accounts	Php48	Php49	(Php1)	(2)
Write-down of inventories to net realizable values	61	109	(48)	(44)
	Php109	Php158	(Php49)	(31)

Amortization of intangible assets decreased by Php27 million, or 39%, to Php42 million mainly due to intangible assets relating to technology application arising from the acquisition of Wolfpac which was fully amortized by end 2006; no similar transaction was incurred in the first quarter of 2007.

Net financing gains decreased by Php389 million, or 92%, to Php32 million on account of lower foreign exchange gains recognized in the first quarter of 2007 as compared to the same period in 2006 due to lower appreciation of the Philippine peso to the U.S. dollar in 2007, partly offset by lower accretion on financial liabilities. The breakdown of our financing costs (gains) for our wireless business for the three months ended March 31, 2007 and 2006 is as follows:

	Three Months Ended March 31,			
			Change	
	2007	2006	Amount	%
		(Unaudited)		
(in millions)				
Interest on loans and related items	Php400	Php405	(Php5)	(1)
Accretion on financial liabilities – net	223	545	(322)	(59)
Financing charges	34	25	9	36
Dividends on preferred stock subject to mandatory redemption	5	49	(44)	(90)
Loss (gain) on derivative transactions – net	(13)	1	(14)	(1,400)
Capitalized interest	(41)	(61)	20	33
Interest income	(275)	(370)	95	26
Foreign exchange gains – net	(365)	(1,015)	650	64
	(Php32)	(Php421)	Php389	92

Other expenses increased by Php111 million, or 48%, to Php342 million primarily due to higher various business and operational-related expenses.

Provision for Income Tax

Provision for income tax increased by Php1,456 million, or 65%, to Php3,690 million in the first quarter of 2007 from Php2,234 million in the same period in 2006. In the first quarter of 2007, the effective tax rate for our wireless business was 35% as compared to 22% in the same period in 2006 mainly due to recognition of deferred tax assets of Piltel in 2006.

Net Income

Our wireless business segment recorded a net income of Php6,894 million in the first quarter of 2007, a decrease of Php997 million, or 13%, over Php7,891 million registered in the same period in 2006, notwithstanding the increase in income before tax, on account of higher provision for income tax largely due to Piltel's recognition of deferred tax assets in 2006.

Fixed Line

Revenues and Other Income

Our fixed line business provides local exchange service, international and national long distance services, data and other network services, and miscellaneous services. Total fixed line revenues generated from our fixed line business in the first quarter of 2007 totaled Php12,007 million, a decrease of Php262 million, or 2%, from Php12,269 million in the same period in 2006.

The following table summarizes revenues from our fixed line business for the three months ended March 31, 2007 and 2006 by service segment:

	Three Months Ended March 31,					
					Increase (Decrease)	
	2007	%	2006	%	Amount	%
			(Unaudited)			
(in millions)						
Fixed line services:						
Service Revenues						
Local exchange	Php3,905	33	Php4,352	35	(Php447)	(10)
International long distance	2,400	20	2,559	21	(159)	(6)
National long distance	1,593	13	1,810	15	(217)	(12)
Data and other network	3,563	30	3,066	25	497	16
Miscellaneous	367	3	364	3	3	1
	11,828	99	12,151	99	(323)	(3)
Non-Service Revenues	15	–	13	–	2	15
Other Income	164	1	105	1	59	56
Total Fixed Line Revenues and Other Income	Php12,007	100	Php12,269	100	(Php262)	(2)

Service Revenues

Local Exchange Service

Our local exchange service revenues consist of:

- flat monthly fees for our postpaid and fixed charges for our bundled and data services;
- installation charges and other one-time fees associated with the establishment of customer service;
- revenues from usage of prepaid cards for calls within the local area and any unused peso value of expired prepaid cards; and
- charges for special features, including bundled value-added services such as call waiting, call forwarding, multi-party conference calling, speed calling and caller ID.

The following table summarizes key measures of our local exchange service business as at and for the three months ended March 31, 2007 and 2006:

	Three Months Ended March 31,			
			Increase (Decrease)	
	2007	2006	Amount	%
	(Unaudited)			
Total local exchange service revenues (in millions)	Php3,905	Php4,352	(Php447)	(10)
Number of fixed line subscribers	1,847,084	1,854,364	(7,280)	–
Number of fixed line employees	8,702	9,160	(458)	(5)
Number of fixed line subscribers per employee	212	203	9	4

Revenues from our local exchange service decreased by Php447 million, or 10%, to Php3,905 million in the first quarter of 2007 from Php4,352 million in the same period in 2006. The decrease was primarily due to the appreciation of the peso which required us to make downward adjustments in our monthly local service rates and a decline in the number of fixed line subscribers. The percentage contribution of local exchange revenues to our total fixed line service revenues decreased to 33% in the first quarter of 2007 as compared to 36% in the same period in 2006.

Initially intended as an affordable alternative telephone service for consumers under difficult economic conditions, our prepaid fixed line services now form an important part of our overall churn and credit risk exposure management and subscriber retention strategy. Prepaid subscribers are charged based on usage at a rate of Php1.00 per minute for local calls, but the rates charged for prepaid and postpaid fixed line subscribers for national and international long distance calls are the same. A prepaid fixed line subscriber is recognized as an active subscriber when that subscriber activates and uses a prepaid call card. Prepaid fixed line subscribers can reload their accounts by purchasing call cards that are sold in denominations of Php500, Php300 and Php150. All sales of prepaid cards, whether through dealers or through PLDT's business offices, are non-refundable.

In May 2006, PLDT launched *Pwede! Card*, the first reloadable PIN-based prepaid card that provides access to a range of voice and Internet services at affordable rates. *Pwede! Card* is applicable to a host of fixed line and wireless services including local, domestic and international long distance calls, text messaging, payphones and prepaid Internet service.

In July 2006, PLDT launched *Telepwede*, an upgraded prepaid fixed line service. *Telepwede* subscribers are charged Php115 per month to receive incoming calls. Since *Telepwede* runs on the prepaid platform of *Pwede!* Card, subscribers can reload for as low as Php30 to make outgoing calls. Charges are at Php2 per local call (for an unlimited duration), Php2.50 per minute for PLDT to PLDT NDD, Php5.00 per minute for PLDT to non-PLDT NDD, and Php6.50 per minute for calls to cellular phones. IDD call rates are classified into three: Php8 per minute for top 95 destinations, Php10 per minute for 8 Middle East countries and Php15 per minute for the rest of the world. *Vibe* prepaid dial-up service can also be accessed at Php1 per 10 minutes with an additional access fee of Php2 per log-on.

Pursuant to a currency exchange rate adjustment mechanism authorized by the Philippine National Telecommunications Commission, or the NTC, we adjust our postpaid monthly local service rates upward or downward by 1% for every Php0.10 change in the peso-to-dollar exchange rate relative to a base rate of Php11.00 to US$1.00. In the first quarter of 2007, we implemented two downward adjustments in our monthly local service rates, while there were three downward adjustments in the same period in 2006. The average Philippine peso to U.S. dollar rate factored in our monthly local service rates in the first quarter of 2007 was Php49.09 to US$1.00, compared to an average of Php52.58

to US$1.00 in the same period in 2006. This change in the average peso-to-dollar rate translated to a peso appreciation of 7%, which resulted in a net decrease of approximately 6% in our average monthly local service rates in the first quarter of 2007.

International Long Distance Service

Our international long distance service revenues, which we generate through our international gateway facilities, consist of:

- inbound call revenues representing settlements from foreign telecommunications carriers for inbound international calls, virtual transit and hubbing service and reverse charged calls such as received collect and home country direct service;
- access charges paid to us by other Philippine telecommunications carriers for terminating inbound international calls to our local exchange network; and
- outbound call revenues representing amounts billed to our customers (other than our cellular customers) for outbound international calls, net of amounts payable to foreign telecommunications carriers for terminating calls in their territories.

The following table shows information about our international fixed line long distance business for the three months ended March 31, 2007 and 2006:

	Three Months Ended March 31,			
			Increase (Decrease)	
	2007	2006	Amount	%
	(Unaudited)			
Total international long distance service revenues (in millions)	Php2,400	Php2,559	(Php159)	(6)
Inbound	2,032	2,147	(115)	(5)
Outbound	368	412	(44)	(11)
International call volumes (in million minutes, except call ratio)	577	514	63	12
Inbound	513	468	45	10
Outbound	64	46	18	39
Inbound-outbound call ratio	8.0:1	10.2:1	–	–

Our total international long distance service revenues decreased by Php159 million, or 6%, to Php2,400 million in the first quarter of 2007 from Php2,559 million in the same period in 2006, primarily due to the peso appreciation and a decrease in average termination rates for inbound calls mitigated by an increase in call volumes. The percentage contribution of international long distance service revenues to our total fixed line service revenues decreased to 20% in the first quarter of 2007 from 21% in the same period in 2006.

Our revenues from inbound international long distance service decreased by Php115 million, or 5%, to Php2,032 million due to the appreciation of the Philippine peso to the U.S. dollar coupled with a decrease in average rate per minute due to the change in call mix with more traffic terminating to cellular operators where the net revenue kept by us is lower. These decreasing effects were partially offset by an increase in inbound traffic volume by 45 million minutes to 513 million minutes in the first quarter of 2007. The appreciation of the Philippine peso to the U.S. dollar with average rates of Php48.567 in the first quarter of 2007 and Php51.683 in the same period in 2006 contributed to the decrease in our inbound international long distance revenues in peso terms, since settlement charges for inbound calls are billed in U.S. dollars or in special drawing rights, an established method of settlement among international telecommunications carriers using values based on a basket of foreign currencies that are translated into pesos at the time of billing.

Our revenues from outbound international long distance service decreased by Php44 million, or 11%, to Php368 million in the first quarter of 2007 primarily due to a decline in average revenue per minute as a result of a lower average collection rate with the introduction of low-rate services such as *PLDT ID-DSL* and *Budget Card*, and the peso appreciation in 2006, which more than offset the increase in outbound international call volumes in 2006.

On September 15, 2005, we introduced *PLDT ID-DSL*, a service that allows overseas calls for registered *myDSL* plan subscribers using a regular PLDT fixed line or a voice pad dialer for as low as US$0.10 per minute or US$0.08 per minute, respectively, depending on the subscribers' DSL plan.

To address the market's demand for low-priced international calls, PLDT enhanced the *Budget Card*, a prepaid call card, offering a reduced IDD rate of Php5 per minute, as a promotional offer starting September 24, 2005, for calls to 89 overseas destinations including the United States, Canada, Japan and China. On March 4, 2006, *Budget Card* calling rates has been further lowered to Php3, Php5 and Php8 per minute calls, depending on the destination, and now has 100 overseas destinations. *Budget Cards* are sold in denominations of Php200 and Php100, which must be consumed within 30 days from first use.

National Long Distance Service

Our national long distance service revenues consist of:

- per minute charges for calls made by our fixed line customers outside of the local service areas but within the Philippines, net of interconnection charges payable for calls carried through the backbone network of, and/or terminating to the customer of, another telecommunications carrier;
- access charges received from other telecommunications carriers for calls carried through our backbone network and/or terminating to our customers; and
- fixed charges paid by other telephone companies, charges retained by PLDT for calls terminating to cellular subscribers within the local area, and local access charges paid by cellular operators for calls by cellular subscribers that terminate to our local exchange network.

The following table shows our national long distance service revenues and call volumes for the three months ended March 31, 2007 and 2006:

	Three Months Ended March 31,			
			Decrease	
	2007	**2006**	**Amount**	**%**
		(Unaudited)		
Total national long distance service revenues (in millions)	Php1,593	Php1,810	(Php217)	(12)
National long distance call volumes (in million minutes)	540	545	(5)	(1)

Our national long distance service revenues decreased by Php217 million, or 12%, to Php1,593 million in the first quarter of 2007 from Php1,810 million in the same period in 2006, primarily due to a decrease in call volumes coupled with lower average revenue per minute in the first quarter of 2007.

Accordingly, the percentage contribution of national long distance revenues to our fixed line service revenues accounted for 13% and 15% in the first quarter of 2007 and 2006, respectively.

In January 2006, PLDT launched the *10-10-10* promotion where we charge a flat rate of Php10 per call for an unlimited duration terminating from PLDT to PLDT and Smart and *Talk 'N Text* subscribers for a Php50 monthly service fee.

PLDT limited the Php10 per call service for Smart and *Talk 'N Text* to subscribers who registered on or before February 24, 2006. PLDT fixed line subscribers, however, can still register and avail themselves of the unlimited Php10 per call service for national long distance calls within the PLDT network.

Data and Other Network Services

Our data and other network service revenues include charges for leased lines, IP-based, packet-based and switched-based services. These services are used for domestic and international communications such as private networking, broadband and narrowband Internet-based data communications, and packet-based communication.

The following table shows information about our data and other network service revenues for the three months ended March 31, 2007 and 2006:

	Three Months Ended March 31,			
			Increase	
	2007	2006	Amount	%
(in millions)		(Unaudited)		
Data and other network service revenues	Php3,563	Php3,066	Php497	16
Number of DSL broadband subscribers	152,645	101,195	51,450	51
Number of PLDT Vibe narrowband subscribers	299,832	300,157	(325)	–

In the first quarter of 2007, our data and other network services posted revenues of Php3,563 million, an increase of Php497 million, or 16%, from Php3,066 million in the same period in 2006, primarily due to increases in leased lines, IP-based and switched-based data services, particularly Diginet and DFON rental, and *PLDT DSL* mitigated by lower *PLDT Vibe* services. The revenue contribution of this service segment to our fixed line service revenues increased to 30% in the first quarter of 2007 from 25% in the same period in 2006.

IP-based products include *PLDT DSL* (*myDSL and BizDSL*), *PLDT Vibe* and I-Gate. *PLDT DSL* broadband Internet service is targeted for heavy individual Internet users as well as for small and medium enterprises, while *PLDT Vibe,* PLDT's dial-up/narrowband Internet service, is targeted for light to medium residential or individual Internet users. I-Gate, our dedicated leased line Internet access service, on the other hand, is targeted to enterprises and value-added service providers.

DSL contributed revenues of Php876 million in the first quarter of 2007, an increase of Php133 million, or 18%, from Php743 million in the same period in 2006, primarily due to an increase in the number of subscribers. *DSL* reached 152,645 subscribers as at March 31, 2007 compared with 101,195 subscribers in the same period in 2006. *DSL* offers a number of packages with maximum speeds ranging from 88 kbps to 5 Mbps depending on the plan.

PLDT Vibe revenues decreased by Php15 million, or 16%, to Php80 million in the first quarter of 2007 from Php95 million in the same period in 2006, primarily due to a decrease in subscribers. As at March 31, 2007, *PLDT Vibe* registered users totaled 299,832, of which 92,629 were exclusive postpaid users, 194,890 were exclusive prepaid users, and 12,313 were both postpaid and prepaid users. As at March 31, 2006, *PLDT Vibe* registered users totaled 300,157, of which 114,249 were exclusive postpaid users, 158,537 were exclusive prepaid users, and 27,371 were both postpaid and prepaid users.

In support of the growing data requirements of the small and medium enterprise market, the network footprints of BRAINS, IP-VPN and *Shops.work,* PLDT's private local networking services, have been expanded with the roll-out of NGN facilities in key business areas across the country.

The continued growth in data services revenues can be attributed to several product offerings. The steady demand for dedicated connectivity or private networking from the corporate market using PLDT's traditional international and domestic data offerings – Fibernet, Arcstar, Acacia, I-Gate, Diginet, BRAINS, IP-VPN and *Shops.work*, among others – continues to provide us with a stable revenue source.

Diginet, our domestic private leased line service, has been providing Smart's increasing fiber optic and leased line data requirements. Diginet revenues increased by Php201 million, or 14%, to Php1,607 million in the first quarter of 2007 as compared to Php1,406 million in the same period in 2006 mainly due to Smart's DFON rental of Php1,214 million and Php995 million in the first quarter of 2007 and 2006, respectively.

Miscellaneous

Miscellaneous service revenues are derived mostly from directory advertising and facilities rental. In the first quarter of 2007, these revenues increased by Php3 million, or 1%, to Php367 million from Php364 million in the same period in 2006. The improvement was mainly due to an increase in the sale of Smart products, primarily *Smart Load,* brought about by the launching of the *Pwede! Card* in May 2006 coupled with an increase in facility management fees, mitigated by a decrease in rental income brought about by a decline in co-location charges. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 3% in the first quarter of 2007 and 2006.

Non-service Revenues

Non-service revenues increased by Php2 million, or 15%, to Php15 million in the first quarter of 2007 from Php13 million in the same period in 2006 primarily due to proceeds from computer sales in relation to our DSL promotion.

Other Income

All other income/gains such as rental income and gain on disposal of property, which do not fall under service and non-service revenues are included under this classification. In the first quarter of 2007, our fixed line business segment registered an increase in other income of Php59 million, or 56%, to Php164 million from Php105 million in the same period in 2006 mainly due to income from disposal of various materials.

Expenses

Expenses related to our fixed line business totaled Php9,430 million in the first quarter of 2007, a decrease of Php1,706 million, or 15%, as compared to Php11,136 million in the same period in 2006. The decrease was primarily due to lower depreciation and amortization, partially offset by higher financing costs and professional and other contracted services expense.

The following table shows the breakdown of our total fixed line-related expenses for the three months ended March 31, 2007 and 2006 and the percentage of each expense item to the total:

	Three Months Ended March 31,					
					Increase (Decrease)	
	2007	%	2006	%	Amount	%
	(Unaudited)					
(in millions)						
Fixed line services:						
Compensation and benefits[(1)]	Php2,382	25	Php2,216	20	Php166	7
Depreciation and amortization	2,289	24	4,971	45	(2,682)	(54)
Financing costs	1,838	20	1,408	13	430	31
Maintenance	928	10	808	7	120	15
Professional and other contracted services	430	5	214	2	216	101
Rent	423	5	427	4	(4)	(1)
Selling and promotions	362	4	386	3	(24)	(6)
Taxes and licenses	235	2	196	2	39	20
Insurance and security services	139	1	133	1	6	5
Communication, training and travel	130	1	124	1	6	5
Provisions	123	1	79	1	44	56
Cost of sales	47	1	32	–	15	47
Other expenses	104	1	142	1	(38)	(27)
Total	Php9,430	100	Php11,136	100	(Php1,706)	(15)

(1) Includes salaries and benefits, incentive plan, pension and MRP costs.

Compensation and benefits expenses increased by Php166 million, or 7%, to Php2,382 million, primarily due to the effect of collective bargaining agreement-related increases in salaries and benefits, and an increase in pension benefits, partially offset by a reduction in the number of fixed line employees due to PLDT's manpower rightsizing program. For further discussion on our long-term incentive plan, please see *Note 21 – Employee Benefits* to the accompanying unaudited consolidated financial statements.

Depreciation and amortization charges decreased by Php2,682 million, or 54%, to Php2,289 million due to PLDT's additional depreciation charges on certain properties and equipment affected by our NGN roll-out recognized in 2006 amounting to Php1,941 million; no similar additional depreciation recognized in 2007.

Financing costs increased by Php430 million, or 31%, to Php1,838 million largely due to (1) higher loss on derivative transactions in the first quarter of 2007; (2) lower foreign exchange gains recorded in 2006 as a result of lower foreign currency debt levels; and (3) lower interest income. The breakdown of financing costs for our fixed line business for the three months ended March 31, 2007 and 2006 is as follows:

	Three Months Ended March 31,			
			Change	
	2007	2006	Amount	%
	(Unaudited)			
(in millions)				
Interest on loans and related items	Php1,451	Php1,718	(Php267)	(16)
Loss on derivative transactions	366	21	345	1,643
Hedge costs	354	341	13	4
Accretion on financial liabilities – net	45	69	(24)	(35)
Financing charges	1	11	(10)	(91)
Interest income	(55)	(108)	53	49
Capitalized interest	(73)	(68)	(5)	(7)
Foreign exchange gains – net	(251)	(576)	325	56
	Php1,838	Php1,408	Php430	31

Maintenance expenses increased by Php120 million, or 15%, to Php928 million, primarily due to higher maintenance costs for domestic cable and wire facilities as more operating and maintenance-related restorations were incurred in the first quarter of 2007 as compared to the same period in 2006.

Professional and other contracted services increased by Php216 million, or 101%, to Php430 million primarily due to PLDT's higher consultancy service fees coupled with higher contracted services in the first quarter of 2007.

Rent expenses decreased by Php4 million, or 1%, to Php423 million due to the decrease in transponder lease charges, partially offset by an increase in international leased circuits charges and higher office and building rentals.

Selling and promotion expenses decreased by Php24 million, or 6%, to Php362 million, primarily as a result of a decline in PLDT's promotional activities in relation to various products and services, partly offset by higher public relations expense in 2006.

Taxes and licenses increased by Php39 million, or 20%, to Php235 million, mainly on account of higher business-related taxes incurred in the first quarter of 2007 as compared to the same period in 2006.

Insurance and security services increased by Php6 million, or 5%, to Php139 million, primarily due to higher premiums on property all-risk, industrial all-risk and industrial fire insurance.

Communication, training and travel expenses increased by Php6 million, or 5%, to Php130 million due to an increase in local and foreign travel and training in the first quarter of 2007 as compared to the same period in 2006.

Provisions increased by Php44 million, or 56%, to Php123 million primarily on account of the negative Php85 million provision for onerous contracts in the first quarter of 2006; no similar transaction was provided for in the same period in 2007. This was partially offset by PLDT's lower provision for doubtful accounts as a result of lower anticipated uncollectible receivables. The breakdown of provisions for our fixed line business for the three months ended March 31, 2007 and 2006 is as follows:

	Three Months Ended March 31,			
			Increase (Decrease)	
	2007	**2006**	**Amount**	**%**
		(Unaudited)		
(in millions)				
Doubtful accounts	Php114	Php155	(Php41)	(26)
Onerous contracts and assessments	9	(76)	85	112
	Php123	Php79	Php44	56

Cost of sales increased by Php15 million, or 47%, to Php47 million in the first quarter of 2007 due to the computer-bundled sales in relation to our DSL promotion and *WeRoam* subscriptions.

Other expenses decreased by Php38 million, or 27%, to Php104 million due to various business and operational-related expenses resulting from continuing cost-containing activities.

Provision for Income Tax

Provision for income tax amounted to Php899 million in the first quarter of 2007 as compared to Php291 million in the same period in 2006 primarily due to net movement in deferred tax assets owing to higher foreign exchange differentials realized in 2006.

Net Income

In the first quarter of 2007, our fixed line business segment contributed a net income of Php1,678 million, an increase of Php836 million, or 99%, as compared to Php842 million in the same period in 2006 mainly as a result of a 15% decrease in fixed line-related expenses, particularly depreciation and amortization partially offset by a slight decrease in our service revenues.

Information and Communications Technology

Revenues and Other Income

Our information and communications technology, or ICT, business is conducted by ePLDT and its subsidiaries.

On July 11, 2006, ePLDT acquired a 100% equity interest in SPi Technologies, Inc., or SPi, and its direct and indirect Philippine and offshore subsidiaries. SPi is the second largest pure-play BPO service provider and the ninth largest independent BPO service provider worldwide. It has operations in 19 locations in North America, Europe and Asia. On August 11, 2006, SPi acquired 100% of CyMed, Inc., a leading medical transcription company based in Richmond, Virginia.

On February 16, 2006, ePLDT acquired a 60% equity interest in Level Up!, a leading publisher of online games in the Philippines. The acquisition of Level Up!, together with netGames, ePLDT's online gaming subsidiary, will strengthen ePLDT's online gaming business in the Philippines.

For further discussion, see *Note 2 – Summary of Accounting Policies and Practices – Basis of Preparation* to the accompanying unaudited consolidated financial statements.

In the first quarter of 2007, our information and communications technology business generated revenues of Php2,466 million, an increase of Php1,594 million, or 183%, from Php872 million in the same period in 2006. This increase was largely due to the consolidation of SPi and Level Up! and the continued increase of our call center revenues. Going forward, we currently expect revenues from our call center and BPO businesses to continue to contribute significantly to our information and communications technology revenues in light of the growing demand for our call center and BPO services.

The following table summarizes revenues from our information and communications technology business for the three months ended March 31, 2007 and 2006 by service segment:

	Three Months Ended March 31,					
					Increase (Decrease)	
	2007	%	2006	%	Amount	%
			(Unaudited)			
(in millions)						
Service Revenues						
Call center	Php782	32	Php563	65	Php219	39
BPO	1,269	51	–	–	1,269	100
Internet and gaming	237	10	142	16	95	67
Vitro™ data center	112	4	83	10	29	35
Others	25	1	25	3	–	–
	2,425	98	813	94	1,612	198
Non-service Revenues						
Point Product Sales	33	2	53	6	(20)	(38)
Other Income	8	–	4	–	4	50
Equity in net income of associates	–	–	2	–	(2)	(100)
Total ICT Revenues and Other Income	Php2,466	100	Php872	100	Php1,594	183

Service Revenues

Service revenues generated by our information and communications technology segment amounted to Php2,425 million in the first quarter of 2007, an increase of Php1,612 million, or 198%, as compared to Php813 million in the same period in 2006 primarily as a result of the consolidation of SPi and Level Up! and the continued growth of our call center business.

Call Center

We are focused on developing our call center business which capitalizes on the availability of English-speaking college graduates in the Philippines with a strong customer service orientation. ePLDT has established one umbrella brand name, *ePLDT Ventus*, for all of its call center businesses, including Vocativ and Parlance. Ventus provides offshore contact center outsourcing solutions specializing in inbound customer care. Vocativ provides customer and technical support to its clients in the Philippines, United States and the United Kingdom, while Parlance provides exclusive customer support and billing requirements to one of the largest direct-to-home satellite television providers in the United States. In total, we own and operate approximately 5,720 seats with 4,620 customer service representatives, or CSRs, as at March 31, 2007 compared to approximately 3,690 seats with 3,842 CSRs as at March 31, 2006. In 2006, *ePLDT Ventus* launched two new sites bringing our total call center site count to seven as at March 31, 2007.

Call center revenues consist of:

- inbound calls for customer care, product inquiries, sales and technical support based on active minutes, billable hours and full-time equivalents;
- outbound calls for sales and collections based on active minutes, billable hours and full-time equivalents; and

- service income for e-mail handling, web chat, web co-browsing, data entry and BPO based on transaction volume.

Revenues related to our call center business increased by Php219 million, or 39%, to Php782 million in the first quarter of 2007 from Php563 million in the same period in 2006 primarily due to the combined effects of the following:

- an increase in programs being handled by Vocativ from the first quarter of 2006 brought about by the acquisition of additional clients in the same period in 2007;
- an increase in the number of registered minutes for Parlance's inbound projects and hours for outbound projects;
- an increased call volume handled by Ventus due to the expansion of our domestic call center group, which currently serves internal (Smart) and external (credit card companies) clients;
- the expansion of Vocativ's existing Taguig facility by 660 seats to approximately 1,870 seats in the first quarter of 2007 from approximately 1,210 seats in the same period in 2006;
- the expansion of Ventus' existing Iloilo facility by 80 seats to approximately 450 seats in the first quarter of 2007 from approximately 370 seats in the same period in 2006;
- the expansion of Ventus' back-up/overflow Makati facility by 220 seats to approximately 300 seats in the first quarter of 2007 from approximately 80 seats in the same period in 2006, which provided capacity for seasonal requirements of Iloilo-based programs;
- the commencement of operations at the 820-seat Ventus Pasig call center in August 2006; and
- the commencement of operations at the 780-seat Parlance Libertad call center in September 2006.

Call center revenues accounted for 32% and 69% of total information and communications technology service revenues in the first quarter of 2007 and 2006, respectively.

Business process outsourcing

BPO revenues consist of:

- editorial and content production services to the scholarly scientific, technical and medical (SSTM) journal publishing industry;
- digital content conversion services to information incentive organizations such as online and traditional publishers, libraries, educational institutions, Global 1,000 corporations and government agencies worldwide;
- pre-press project management services to book publishers;
- litigation support services which involve conventional coding and electronic discovery support services for international law firms, corporate counsels and government agencies; and

- conversion services of medical record/data from handwritten or speech format to electronic format.

We provide our BPO services primarily through SPi and its subsidiaries, which we acquired on July 11, 2006. In the first quarter of 2007, BPO contributed revenues of Php1,269 million, primarily from SPi services, and accounted for 52% of service revenues.

Internet and gaming

ePLDT has also invested in a number of other e-commerce and Internet-related businesses, which include:

- a 99.6% interest in Infocom, an Internet service provider offering consumer prepaid and postpaid Internet access, corporate leased lines, dedicated dial-up, multi-user dial-up, broadband Internet access through DSL, web consulting and development, hosting and other value-added services. In addition, Infocom, through its Customer Service Outsourcing Group, handles PLDT group's nationwide technical helpdesk operations;

- a 75% interest in Digital Paradise, an Internet café business with the brand *Netopia*;

- an 80% interest in netGames, a publisher for Massively Multi-player Online Games in the Philippines and the Philippine licensee of *Khan Online*, *Pangya* and *Flyff*, and the owner of Juanworld, a community gaming portal;

- a 60% interest in Level Up!, a leading publisher of online games in the Philippines with approximately 80% of the online gaming market. Level Up! was consolidated to ePLDT in May 2006;

- a 51% interest in Airborne Access, the country's leading operator of WiFi hotspots, which provides wireless Internet access in hotspots equipped with WiFi access points; and

- a 51% interest in Digital Paradise Thailand, an affiliate of Digital Paradise, offering similar products and services with four branches in Bangkok, Thailand.

Internet service revenues consist of:

- revenues derived from actual usage of the Internet access network by prepaid subscribers and any unused peso value of expired prepaid cards or electronic Internet time loads, net of discounts given to dealers;
- monthly service fees from postpaid corporate and consumer subscribers including: (1) charges for Internet usage in excess of allocated free plan Internet hours; (2) one-time installation and activation fees; and (3) fees for value-added services including e-mail and web hosting services;
- one-time fees generated from the reselling of Internet-related solutions such as security solutions and domain registration;

- franchise and royalty fees for *Netopia* Internet cafés, including a one-time subscription fee and monthly recurring franchise fees based on certain conditions in the franchise agreement;
- revenues from community access of computers and desktop publishing based on actual usage, net of discounts given to users; and
- online gaming revenues from unique subscribers, including one-time sale of gaming cards and electronic pins, and top-up fees upon actual consumption of gaming credits or after expiration of any unused peso value thereof.

Revenues from our Internet and gaming businesses increased by Php95 million, or 67%, to Php237 million in the first quarter of 2007 from Php142 million in the same period in 2006 primarily due to the consolidation of Level Up! in May 2006 which resulted in additional revenues of Php45 million and an increase in Infocom's revenues by Php30 million. Our Internet and gaming business revenues accounted for 10% and 17% of service revenues of our information and communications technology business in the first quarter of 2007 and 2006, respectively.

Vitro™ data center

ePLDT operates an Internet data center under the brand name *Vitro*™ which provides co-location services, server hosting, hardware and software maintenance services, website development and maintenance services, webcasting and webhosting, shared applications, data disaster recovery and business continuity services, intrusion detection, and security services such as firewalls and managed firewalls.

Vitro™ revenues consist of:

- monthly service fees derived from co-location services, server hosting, hardware and software maintenance services, website development and maintenance services, web hosting, data recovery security services and other value-added services; and
- installation charges or one-time fees associated with the set-up of services and professional services of Vitro's certified professionals.

In the first quarter of 2007, *Vitro*™ contributed revenues of Php112 million, an increase of Php29 million, or 35%, from Php83 million in the same period in 2006, primarily due to an increase in co-location revenues and server hosting. *Vitro*™ revenues accounted for 5% and 10% of service revenues of our information and communications technology business in the first quarter of 2007 and 2006, respectively.

Others

Other revenues consist of:

- fees generated from the issuance of digital certificates and licenses; and
- revenues derived from IT helpdesk/contact center solutions and terminals for credit, debit and credit card transactions.

Revenues from other businesses related to our information and communications technology segment remained stable at Php25 million in the first quarter of 2007 and 2006, largely due to IT helpdesk/contact center services rendered coupled with an increase in the number of digital certificates sold.

Please refer to *Note 9 – Investments in Associates* to the accompanying unaudited consolidated financial statements for further discussion on ePLDT's other information and communications technology services.

Non-service Revenues

Non-service revenues consist of sales generated from reselling certain software licenses, server solutions, networking products, storage products and data security products. In the first quarter of 2007, non-service revenues generated by our information and communications technology business decreased by Php20 million, or 38%, to Php33 million as compared to Php53 million in the same period in 2006, primarily due to higher revenues from sales of software licenses.

Other Income

All other income/gains which do not fall under service and non-service revenues are included under this classification. Other income generated from our information and communications technology business increased to Php8 million in the first quarter of 2007 from Php4 million in the same period in 2006 primarily due to higher income from subsidiaries and affiliates.

Equity Share in Net Income of Associates

ePLDT's equity share in net income of associates amounted to Php2 million in the first quarter of 2006 due to ePLDT's share in the earnings of its unconsolidated subsidiary, ePDS, Inc.

Expenses

Expenses associated with our information and communications technology business totaled Php2,316 million in the first quarter of 2007, an increase of Php1,458 million, or 170%, from Php858 million in the same period in 2006 primarily due to the consolidation of SPi and Level Up! resulting to an increase in compensation and benefits, professional and other contracted services, and depreciation and amortization. We currently expect these expenses to be significantly higher going forward as a result of the full year consolidation of SPi and Level Up!. As a percentage of our information and communications technology revenues, expenses related to our information and communications technology business were 94% and 98% for the first quarter of 2007 and 2006, respectively.

The following table shows the breakdown of our total information and communications technology-related expenses for the three months ended March 31, 2007 and 2006 and the percentage of each expense item to the total:

	Three Months Ended March 31,					
					Increase (Decrease)	
	2007	%	2006	%	Amount	%
			(Unaudited)			
(in millions)						
Information and communications technology services:						
Compensation and benefits[(1)]	Php1,184	51	Php386	45	Php798	207
Professional and other contracted services	320	14	23	3	297	1,291
Depreciation and amortization	234	10	120	14	114	95
Rent	152	7	99	12	53	54
Maintenance	127	5	58	7	69	119
Communication, training and travel	102	4	30	3	72	240
Selling and promotions	65	3	36	4	29	81
Amortization of intangible assets	34	1	–	–	34	100
Cost of sales	24	1	45	5	(21)	(47)
Taxes and licenses	19	1	8	1	11	138
Insurance and security services	11	1	5	1	6	120
Equity share in net losses of associates	6	–	–	–	6	100
Provisions	1	–	1	–	–	–
Financing costs (gains)	(9)	–	13	1	(22)	(169)
Other expenses	46	2	34	4	12	35
Total	Php2,316	100	Php858	100	Php1,458	170

(1) Includes salaries and benefits, incentive plan, pension and MRP costs.

Compensation and benefits increased by Php798 million, or 207%, to Php1,184 million largely due to the increased number of employees and corresponding salaries and employee benefits resulting from the expansion of our call center businesses and the consolidation of SPi and Level Up! in 2006. ePLDT's employee headcount increased by 6,163, or 104%, to 12,061 in the first quarter of 2007 from 5,898 in the same period in 2006.

Professional and other contracted services increased by Php297 million to Php320 million primarily due to services sub-contracted by SPi from third parties related to its BPO services.

Depreciation and amortization charges increased by Php114 million, or 95%, to Php234 million primarily due to an increase in the depreciable asset base in relation to the expansion of our call center businesses and the consolidation of SPi in July 2006.

Rent expenses increased by Php53 million, or 54%, to Php152 million primarily due to the opening of two additional call center sites in 2006 which led to increased rental of leased circuits.

Maintenance expenses increased by Php69 million, or 119%, to Php127 million primarily due to higher hosting-related costs incurred in the first quarter of 2007 partially offset by Vitro's lower hardware and server maintenance costs.

Communication, training and travel expenses increased by Php72 million, or 240%, to Php102 million, primarily due to the increased cost of phone lines, bandwidth and information system charges, coupled with the increase in foreign and local travel costs incurred by our call center and BPO businesses.

Selling and promotion expenses increased by Php29 million, or 81%, to Php65 million mainly due to higher commissions expenses as well as advertising and marketing spending of netGames and Level Up!.

An amortization of intangible assets amounting to Php34 million was recognized in the first quarter of 2007 in relation to the acquisition of SPi and Level Up!. See *Note 11 – Goodwill and Intangible Assets* to the accompanying unaudited consolidated financial statements for further discussion.

Cost of sales decreased by Php21 million, or 47%, to Php24 million primarily due to a decrease in the cost of point products sold in the first quarter of 2007.

Taxes and licenses increased by Php11 million, or 138%, to Php19 million due to higher business-related taxes accrued and paid in the first quarter of 2007 as compared to the same period in 2006.

Insurance and security services increased by Php6 million, or 120%, to Php11 million, primarily due to higher premium costs and an increase in the value of assets insured in the first quarter of 2007 as compared to the same period in 2006.

ePLDT's equity share in net losses of associates amounted to Php6 million in the first quarter of 2007, primarily due to amortization of intangibles pertaining to Philweb Corporation, or Philweb, acquisition. ePLDT acquired a total of 25.5% equity interest in Philweb in May 2006 and October 2006.

Provisions remained stable at Php1 million mainly due to anticipated uncollectible accounts specifically identified in the first quarter of 2007 and 2006.

Financing costs recognized a gain of Php9 million in the first quarter of 2007, primarily due to a gain on derivative transactions; no similar transaction was recorded in the same period in 2006.

Other expenses increased by Php12 million, or 35%, to Php46 million mainly due to higher business-related costs, such as office supplies.

Benefit from Income Tax

Benefit from income tax amounted to Php9 million in the first quarter of 2007 primarily due to the recognition of deferred tax assets pertaining to accrued pension cost, net operating loss carry-over and allowance for doubtful accounts, as compared to Php15 million in the same period in 2006.

Net Income

In the first quarter of 2007, our information and communications technology business segment registered a net income of Php159 million as compared to Php29 million in the same period in 2006 mainly as a result of a 183% increase in ICT-related revenues mainly from the consolidation of SPi and increased contribution of our call center business, partly offset by the 170% increase in ICT expenses mainly from the opening of two call centers and the consolidation of SPi.

Liquidity and Capital Resources

The following table shows our consolidated cash flows for the three months ended March 31, 2007 and for the year ended December 31, 2006 as well as consolidated capitalization and other selected financial data as at March 31, 2007 and 2006:

	Three Months Ended March 31,	
	2007	2006
	(Unaudited)	
(in millions)		
Cash Flows		
Net cash provided by operating activities	Php25,001	Php15,404
Net cash used in investing activities	13,672	5,824
Capital expenditures	*5,937*	*4,908*
Net cash used in financing activities	5,934	3,971
Net increase in cash and cash equivalents	5,439	5,139

	March 31, 2007	December 31, 2006
(in millions)	(Unaudited)	(Audited)
Capitalization		
Long-term portion of interest-bearing financial liabilities – net of current portion:		
Long-term debt	64,622	Php63,769
Obligations under capital lease	57	106
Preferred stock subject to mandatory redemption	1,247	1,369
	65,926	65,244
Current portion of interest-bearing financial liabilities:		
Notes payable	198	201
Long-term debt maturing within one year	10,093	16,184
Obligations under capital lease maturing within one year	934	924
	11,225	17,309
Total interest-bearing financial liabilities	77,151	82,553
Total equity	104,245	104,523
	Php181,396	Php187,076
Other Financial Data		
Total assets	Php251,597	Php241,892
Property, plant and equipment – net	164,492	164,190
Cash and cash equivalents	22,309	16,870

As at March 31, 2007, our consolidated cash and cash equivalents totaled Php22,309 million. Principal sources of consolidated cash and cash equivalents in the first quarter of 2007 were cash flows from operating activities amounting to Php25,001 million and drawings from Smart's and ePLDT's debt facilities aggregating Php5,009 million. These funds were used principally for capital outlays of Php5,937 million, total debt principal payments of Php9,242 million and short-term investments of Php7,986 million.

Operating Activities

Our consolidated net cash flows from operating activities increased by Php9,597 million, or 62%, to Php25,001 million in the first quarter of 2007 from Php15,404 million in the same period in 2006.

A significant portion of our cash flow is generated by our wireless business, which contributed approximately 60% of our total revenues and other income in the first quarter of 2007 and 2006. Revenues from our fixed line and information and communications technology services accounted for 33% and 7%, respectively, of our total revenues and other income in the first quarter of 2007 compared to 37% and 3%, respectively, in the same period in 2006.

Cash flows from operating activities of our wireless business amounted to Php17,131 million in the first quarter of 2007, an increase of Php9,265 million, or 118%, compared to Php7,866 million in the same period in 2006. Likewise, cash flows from operating activities of our fixed line business increased to Php7,370 million in the first quarter of 2007, compared to Php7,222 million in the same period in 2006. The increase in our cash flows from operating activities was primarily due to the decrease in our working capital requirements owing to higher collections of accounts receivable complemented by a decrease in the settlement of various payables. Our wireless business segment accounted for 69% of our cash flows from operating activities while our fixed line segment accounted for 29% in the first quarter of 2007. We believe that our continuing strong cash flows from operating activities on a consolidated basis will allow us to defray our current liabilities despite our current ratio being less than 1:1 as at March 31, 2007.

Until April 2006, Smart was subject to loan covenants that restricted its ability to pay dividends, redeem preferred shares, make distributions to PLDT or otherwise provide funds to PLDT or any associate without the consent of its lenders. Smart was able to obtain waivers from Finnvera and certain of its lenders for each of the dividend payments made by Smart to PLDT in March 2006, 2005, 2004, 2003 and 2002 aggregating Php7,000 million, Php19,717 million, Php16,100 million, Php6,166 million and Php1,540 million, respectively. In 2005, Smart redeemed 380.8 million preferred shares previously issued to PLDT at a redemption price of Php13.875 per share, or a total redemption price aggregating to Php5,283 million.

Dividend payments made by Smart to PLDT after April 2006 did not require prior creditor consent as all loan facilities that contain such restrictions have already been repaid. In March 2007, June 2006 and September 2006, dividend payments received from Smart amounted to Php8,000 million, Php7,000 million and Php6,600 million, respectively. In addition, Smart redeemed 392 million preferred shares at a total redemption price of Php5,441 million in June 2006.

Investing Activities

Net cash used in investing activities amounted to Php13,672 million in the first quarter of 2007, an increase of Php7,848 million, or 135%, compared to Php5,824 million in the same period in 2006. This was primarily a result of: (1) an increase in capital expenditures by Php1,029 million; and (2) the increase in short-term investments by Php7,955 million in the first quarter of 2007 mainly due to Smart’s increased investment in money market placements with over 90 days maturity.

Our consolidated capital expenditures in the first quarter of 2007 totaled Php5,937 million, an increase of Php1,029 million, or 21%, from Php4,908 million in the same period in 2006 primarily due to PLDT’s, Smart’s and ePLDT’s higher capital spending. Smart's capital spending of Php1,988 million in the first quarter of 2007 was used primarily to further upgrade its core, access and transmission network facilities, expand its wireless broadband facilities and develop IT platforms for new businesses. PLDT's capital spending of Php3,824 million was principally used to finance the expansion and upgrade of its submarine cable facilities, fixed line data and IP-based network services. ePLDT and its subsidiaries’ capital spending of Php110 million was primarily used to fund its continued call center expansion. The balance represented other subsidiaries' capital spending. Consolidated capital expenditures in the first quarter of 2006 amounted to Php4,908 million, of which Php2,569 million, Php1,955 million and Php331 million were attributable to Smart, PLDT and ePLDT, respectively.

Financing Activities

On a consolidated basis, we used net cash of Php5,934 million for financing activities, net of loan drawings by Smart, in the first quarter of 2007, an increase of Php1,963 million, or 49%, compared to Php3,971 million in the same period in 2006. The net cash used in financing activities in 2006 was mainly utilized for debt repayments and interest payments by PLDT and Piltel in line with their ongoing debt reduction programs, and dividend payments distributed by PLDT to its common and preferred stockholders.

Debt Financing

Additions to our consolidated long-term debt in the first quarter of 2007 totaled Php5,009 million mainly from Smart's drawings related to the financing of its network expansion projects. Payments in respect of principal and interest of our total debt amounted to Php9,240 million and Php1,445 million, respectively, in the first quarter of 2007, of which Php7,657 million and Php1,079 million were attributable to PLDT, respectively.

The following table shows our long-term debt, including current portion, as at March 31, 2007 and December 31, 2006:

	March 31, 2007	December 31, 2006	Increase (Decrease)	
			Amount	%
	(Unaudited)	(Audited)		
(in millions)				
U.S. Dollar Debt:				
Export Credit Agencies-Supported Loans	Php13,575	Php14,981	(Php1,406)	(9)
Fixed Rate Notes	33,497	40,971	(7,474)	(18)
Term Loans	17,556	18,611	(1,055)	(6)
Satellite Acquisition Loans	1,796	2,083	(287)	(14)
	66,424	76,646	(10,222)	(13)
Philippine Peso Debt:				
Peso Fixed Rate Corporate Notes	5,795	808	4,987	617
Term Loans	2,496	2,499	(3)	–
	8,291	3,307	4,984	151
	Php74,715	Php79,953	(Php5,238)	(7)

For a complete discussion of our long-term debt, see *Note 17 – Interest-bearing Financial Liabilities* to the accompanying unaudited consolidated financial statements.

Our long-term debt decreased by Php5,238 million, or 7%, to Php74,715 million as at March 31, 2007, largely due to debt amortizations in line with PLDT's efforts to reduce its overall debt level, and also due to the appreciation of the peso. PLDT's debt was reduced by 16% to Php44,043 million by March 31, 2007. The debt levels of Smart increased by Php14% to Php28,832 million while Mabuhay and ePLDT decreased by 14% and 23%, respectively, to Php1,796 million and Php44 million, respectively, as at March 31, 2007 due to amortizations and prepayments during the first quarter of 2007.

On October 16, 2006, Smart signed a U.S. Dollar Term Loan Facility with Metropolitan Bank and Trust Company to finance the related Phase 9 GSM Facility for an amount of US$50 million. As at December 31, 2006, this facility remained undrawn. Please see *Note 17 – Interest-bearing Financial Liabilities* to the accompanying unaudited consolidated financial statements for a detailed discussion of our long-term debt.

The scheduled maturities of our outstanding consolidated long-term debt at nominal values as at March 31, 2007 are as follows:

Year	**US$ Loans**		**Peso Loans**	**Total**
(Unaudited)				
2007[1]	US$169	Php8,164	Php279	Php8,443
2008	147	7,098	558	7,656
2009	263	12,666	570	13,236
2010	71	3,413	1,378	4,791
2011	15	716	568	1,284
2012 and onwards	830	40,027	4,964	44,991
	US$1,495	Php72,084	Php8,317	Php80,401

Approximately Php35,410 million principal amount of our consolidated outstanding long-term debt as at March 31, 2007 is scheduled to mature over the period from 2007 to 2011. Of this amount, Php18,031 million was attributable to PLDT, Php15,539 million to Smart and the remainder to Mabuhay Satellite, Maratel and ePLDT.

Debt Covenants

Our debt instruments contain restrictive covenants, including covenants that could prohibit us from paying dividends on common stock under certain circumstances, and require us to comply with specified financial ratios and other financial tests, calculated in conformity with Philippine Financial Reporting Standards, at relevant measurement dates, principally at the end of each quarterly period. We have complied with all of our maintenance financial ratios as required under our loan covenants and other debt instruments.

Please see *Note 17 – Interest-bearing Financial Liabilities* to the accompanying unaudited consolidated financial statements for a detailed discussion of our covenants.

Financing Requirements

We believe that our available cash, including cash flow from operations, will provide sufficient liquidity to fund our projected operating, investment, capital expenditures and debt service requirements for the next 12 months.

As a result of our improving cash flows and reduced debt levels, we restored the payment of dividends in May 2005 and currently intend to gradually increase our dividend payout ratio in succeeding years as we improve our leverage ratios. For 2006, our dividend payout ratio was 60% of 2006 earnings which we currently intend to increase to 70% in 2007.

Credit Ratings

None of our existing indebtedness contains provisions under which credit rating downgrades would trigger a default, changes in applicable interest rates or other similar terms and conditions.

PLDT's current credit ratings are as follows:

Rating Agency	Credit Rating		Outlook
Moody's Investor Service	Foreign Currency Senior Unsecured Debt Rating	Ba2	Stable
	Local Currency Corporate Family Rating	Baa3	Positive
Standard and Poor's	Foreign Currency Senior Unsecured Debt Rating	BB+	Stable
Fitch	Long-term Foreign Currency Rating	BB	Stable
	Long-term Local Currency Rating	BB+	Stable
	Long-term Foreign Currency Issuer Default Rating	BB+	Stable
	Long-term Local Currency Issuer Default Rating	BBB-	Positive
	National Long-term Rating	AAA(ph1)	Stable

On April 11, 2007, Moody's has placed our Baa3 local currency corporate family rating on review for a possible upgrade and simultaneously affirmed our Ba2 foreign currency bond rating with a stable outlook. The review was prompted by the continued improvement in our financial profile and a strong operating performance.

On November 3, 2006, Moody's affirmed PLDT's Ba2 senior unsecured foreign currency rating and changed its outlook to stable from negative. The rating action was prompted by the change in outlook on the Philippines Ba3 country ceiling for foreign currency bonds to stable from negative. On July 18, 2006, Moody's upgraded PLDT's local currency corporate family rating from Ba1 to Baa3 with a positive outlook.

On August 18, 2006, Fitch upgraded PLDT's long-term foreign currency IDR to "BB+" from "BB" with a stable outlook, at the same time upgrading PLDT's global bonds and senior notes to "BB+" from "BB" and affirmed PLDT's long-term local currency IDR of "BBB-" with a positive outlook. Following the licensing of Fitch to provide National ratings in the Philippines, Fitch assigned PLDT a National long-term rating of "AAA(ph1)" with a stable outlook. The ratings action follows Fitch's announcement that it has upgraded the Country Ceiling on the Republic of the Philippines to "BB+" from "BB."

On August 30, 2006, Standard & Poor's Ratings Services affirmed its 'BB+' foreign currency rating on PLDT with stable outlook. At the same time, the rating on PLDT's Series III Preferred Stock has been withdrawn as the preferred stock have been fully converted into common equity.

Equity Financing

PLDT raised Php36 million and Php21 million from the exercise by certain officers and executives of stock options in the first quarter of 2007 and 2006, respectively.

Cash dividend payments in the first quarter of 2007 amounted to Php62 million compared to Php222 million paid to preferred shareholders in the same period in 2006.

The following table sets forth dividend payments on shares of PLDT's common stock for the first quarter of 2007 and 2006:

	Date			Amount	
Class	Declaration	Record	Paid	Per Share	Total
Common Stock	February 27, 2006	March 20, 2006	April 20, 2006	28.00	5,059
	August 8, 2006	August 21, 2006	September 21, 2006	50.00	9,346
	March 6, 2007	March 20, 2007	April 20, 2007	50.00	9,429

As at March 31, 2007, there were 188.6 million PLDT common shares outstanding compared to 181.4 million common shares outstanding as at March 31, 2006.

Contractual Obligations and Commercial Commitments

Contractual Obligations

The following table discloses our consolidated contractual obligations outstanding as at March 31, 2007:

	Payments Due by Period				
	Total	Within 1 year	2–3 years	4–5 years	After 5 years
			(Unaudited)		
(in millions)					
Long-term debt [(1)]	Php80,401	Php10,223	Php20,505	Php8,482	Php41,191
Long-term lease obligations:					
Operating lease	1,517	1,469	47	1	–
Capital lease	3,230	557	1,112	803	758
Unconditional purchase obligations[(2)]	819	30	48	199	542
Other long-term obligations	1,438	–	1,438	–	–
Total contractual obligations	Php87,405	Php12,279	Php23,150	Php9,485	Php42,491

(1) Before deducting unamortized debt discount and debt issuance costs.

(2) Based on the amended Air Time Purchase Agreement with AIL.

Long-term Debt

For a discussion of our long-term debt, see *Note 17 – Interest-bearing Financial Liabilities* to the accompanying unaudited consolidated financial statements.

Long-term Operating Lease Obligations

Digital Passage Service Contracts. PLDT has existing Digital Passage Service Contracts with foreign telecommunication administrations for several dedicated circuits to various destinations for ten to 25 years expiring at various dates. As at March 31, 2007, PLDT's aggregate remaining obligation under these contracts amounted to approximately Php4 million.

License Agreement with Mobius Management Systems (Australia) Pty Ltd., or Mobius. PLDT entered into a license agreement with Mobius pursuant to which Mobius has granted PLDT a non-exclusive, non-assignable and non-transferable license for the use of computer software components. Under this agreement, Mobius is also required to provide maintenance services for a period of one year at no additional maintenance charge. PLDT may purchase maintenance services upon expiration of the first year for a fee of 15% of the current published license fee. As at March 31, 2007, PLDT's aggregate remaining obligation under this agreement was approximately Php5 million.

Other Long-term Operating Lease Obligations. The PLDT Group has various long-term lease contracts for periods ranging from two to ten years covering certain offices, warehouses, cell sites, telecommunication equipment locations and various office equipments. In particular, Smart has lease obligations amounting to Php2,967 million as at March 31, 2007 in respect of office and cell site rentals with over 3,000 lessors nationwide, PLDT has lease obligations aggregating Php85 million as at March 31, 2007 in respect of office and lot rentals with over 185 lessors nationwide, ePLDT has lease obligations amounting to Php148 million as at March 31, 2007 in respect of certain office space rentals and PLDT Global has lease obligations aggregating Php21 million as at March 31, 2007 in respect of certain office space rentals.

*Long-term Capital Lease Obligation*s

For a discussion of our long-term capital lease obligations, see *Note 17 – Interest-bearing Financial Liabilities* to the accompanying unaudited consolidated financial statements.

Unconditional Purchase Obligations

Air Time Purchase Agreement with AIL. In March 1997 (amended in December 1998), PLDT was a party to a Founder National Service Provider, or NSP, Air Time Purchase Agreement, or ATPA, entered into with AIL, under which PLDT was granted the exclusive right to sell AIL services as NSP in the Philippines. In exchange, the ATPA required PLDT to purchase from AIL a minimum of US$5 million worth of air time annually over ten years commencing January 1, 2002, the purported date of commercial operations of Garuda I Satellite. In the event that AIL's aggregate billed revenue is less than US$45 million in any given year, the ATPA states that PLDT has to make supplemental air time purchase payments not to exceed US$15 million per during the ten-year term.

In September 2006 (as amended in October 2006, November 2006 and January 2007), after lengthy negotiations including a collaboration arrangement with Inmarsat, AIL and ACeS signed a term sheet ("Banks' Term Sheet") with the majority of AIL's bank creditors. The Banks' Term Sheet was aimed to be used as basis for further good faith negotiations among the parties with a view to enter into a further amendment to the Amended and Restated Credit Agreement. Under the Banks' Term Sheet, the majority banks, subject to the satisfaction of certain conditions, agreed to, among others: (1) redenominate AIL's debt, and (2) amend the Founder NSP ATPA payments to:
(i) US$500,000 per year for each of the NSPs, including PLDT, PSN and Jasmine, from 2007 to 2010, and (ii) US$3,000,000 per year each for PLDT and PSN from 2011 to 2015. For further discussion please see *Note 20 – Related Party Transactions* to the accompanying unaudited consolidated financial statements.

As at March 31,2007, PLDT's aggregate remaining minimum obligation under the amended ATPA was approximately Php819 million.

Other Long-term Obligations

Mandatory Conversion and Purchase of Shares. As discussed in *Note 17 – Interest-bearing Financial Liabilities* to the accompanying unaudited consolidated financial statements, PLDT had issued a total of 3 million shares of Series V Convertible Preferred Stock, 5 million shares of Series VI Convertible Preferred Stock and 4 million shares of Series VII Convertible Preferred Stock in exchange for a total of 58 million shares of Series K Class I Convertible Preferred Stock of Piltel, pursuant to the debt restructuring plan of Piltel adopted in June 2001.

Each share of Series V, VI and VII Convertible Preferred Stock is convertible at any time at the option of the holder into one PLDT common share. On the date immediately following the seventh anniversary of the issue date of the Series V and Series VI Convertible Preferred Stocks and on the eighth anniversary of the issue date of the Series VII Convertible Preferred Stock, the remaining outstanding shares under these series will be mandatorily converted to PLDT common shares. Under a put option exercisable for 30 days, holders of common shares received on mandatory conversion of the Series V, VI and VII Convertible Preferred Stocks will be able to require PLDT to purchase such PLDT common shares for Php1,700 per share, US$36.132 per share, and JP¥4,071.89 per share, respectively.

As at March 31, 2007, 2,677,765 shares of Series V Convertible Preferred Stock and 4,512,329 shares of Series VI Convertible Preferred Stock and all 3,842,000 shares of Series VII Convertible Preferred Stock had been voluntarily converted to PLDT common shares. As at March 31, 2007, 43,675 shares of Series V and 782,775 shares of Series VI Convertible Preferred Stocks remained outstanding. The aggregate value of the put option based on outstanding shares as at March 31, 2007 was Php1,438 million, which is puttable on June 4, 2008, if all of the outstanding shares of Series V and VI Convertible Preferred Stocks would be mandatorily converted and all the underlying shares of common stock would be put to PLDT at that time. The market value of the underlying shares of common stock was Php2,087 million, based on the market price of PLDT common shares of Php2,525 per share as at March 31, 2007.

Please refer to *Note 17 – Interest-bearing Financial Liabilities* to the accompanying unaudited consolidated financial statements for further discussion.

Commercial Commitments

As at March 31, 2007, our outstanding commercial commitments, in the form of letters of credit, amounted to Php1,724 million. These commitments will expire within one year.

Quantitative and Qualitative Disclosures about Market Risks

Our operations are exposed to various risks, including liquidity risk, foreign exchange risk and interest rate risk. The importance of managing these risks has significantly increased in light of considerable change and continuing volatility in both the Philippine and international financial markets. With a view to managing these risks, we have incorporated financial risk management functions in our organization, particularly in our treasury operations and equity issues and sales of certain assets.

Liquidity Risk Management

We seek to manage our liquidity profile to be able to finance our capital expenditures and service our maturing debts. To cover our financing requirements, we currently intend to use internally generated funds and proceeds from debt and equity issues and sales of certain assets.

As part of our liquidity risk management program, we regularly evaluate our projected and actual cash flow information and continuously assess conditions in the financial markets for opportunities to pursue fund-raising initiatives. These initiatives may include bank loans, export credit agency-guaranteed facilities, and debt capital and equity market issues.

Foreign Exchange Risk Management

As at March 31, 2007, the Philippine peso had appreciated by 2% against the U.S. dollar to Php48.217 to US$1.00 from Php49.045 to US$1.00 as at December 31, 2006. As at March 31, 2006, likewise, the peso had appreciated by 4% to Php51.158 to US$1.00 from Php53.062 to US$1.00 as at December 31, 2005. The revaluation of our foreign-currency denominated assets and liabilities is recognized as foreign exchange gains or losses as at the balance sheet date. Since most of our indebtedness is denominated in U.S. dollars, the appreciation or depreciation of the Philippine peso results in the recognition of foreign exchange gains or losses. The extent of foreign exchange gains or losses is largely dependent on the amount of foreign currency debt and hedges we carry. As at March 31, 2007, consolidated foreign currency denominated debt was reduced to Php66,424 million from Php96,962 million as at March 31, 2006. As such, we recognized foreign exchange gains of Php588 million and Php1,578 million in the first quarter of 2007 and 2006, respectively.

While a certain percentage of our revenues are either linked to or denominated in U.S. dollars, most of our indebtedness and related interest expense, a substantial portion of our capital expenditures and a portion of our operating expenses are denominated in foreign currencies, mostly in U.S. dollars.

As at March 31, 2007, approximately 90% of our total consolidated debts were denominated in foreign currencies, principally in U.S. dollars. Thus, a strengthening or weakening of the Philippine peso against the U.S. dollar will decrease or increase both the principal amount of our unhedged foreign currency-denominated debts (representing 43% of our consolidated debts, or 28% net of our U.S. dollar cash balances as at March 31, 2007), and interest expense on our debt in Philippine peso terms. In addition, many of our financial ratios and other financial tests are affected by the movements in the Philippine peso to U.S. dollar exchange rate.

To manage our foreign exchange risks, stabilize cash flows, and improve investment and cash flow planning, we enter into forward foreign exchange contracts, foreign currency swap contracts, currency option contracts and other hedging products aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on our operating results and cash flows. However, these hedges do not cover all of our exposure to foreign exchange risks.

Specifically, we use forward foreign exchange contracts, foreign currency swap contracts and currency option contracts to manage the foreign exchange risks associated with our foreign currency-denominated loans. In order to manage hedge costs of these contracts, we utilize structures that include credit-linkage with PLDT as the reference entity, a combination of currency option contracts, and fixed to floating coupon only swap agreements. Accounted for as either cash flow hedges or transactions not designated as hedges, changes in the fair value of these instruments are recognized as cumulative translation adjustments in equity until the hedged item is recognized directly as income or expense for the period. As at March 31, 2007, PLDT's outstanding forward foreign exchange contracts, principal-only long-term cross-currency swap contracts and currency option contracts amounted to US$77 million; US$550 million; and US$136 million, respectively. Smart had outstanding forward foreign exchange contracts amounting to US$18 million as at March 31, 2007.

For further discussions of these contracts, see *Note 24 – Financial Assets and Liabilities – Derivative Financial Instruments* to the accompanying unaudited consolidated financial statements.

Interest Rate Risk Management

On a limited basis, we enter into interest rate swap agreements in order to manage our exposure to interest rate fluctuations. As at March 31, 2007, PLDT's outstanding interest rate swap contracts amounted to US$63 million. For further discussions of these contracts, see *Note 24 – Financial Assets and Liabilities – Derivative Financial Instruments* to the accompanying unaudited consolidated financial statements.

We make use of hedging instruments and structures solely for reducing or managing financial risks associated with our liabilities and not for trading or speculative purposes.

Impact of Inflation and Changing Prices

Inflation can be a significant factor in the Philippine economy, and we are continually seeking ways to minimize its impact. In recent periods, we do not believe inflation has had a material impact on our operations. The average inflation rate in the Philippines in the first quarter of 2007 was 2.9%, compared to 7.3% in the same period in 2006.

OTHER INFORMATION

SPi's Acquisition of Springfield Service Corporation, or Springfield

On April 16, 2007, SPi acquired, through a wholly-owned U.S. subsidiary, 100% of Springfield for an aggregate purchase price of US$44 million, plus possible future earn out payments.

Springfield, the 10th largest player in the medical billing and revenue cycle management market, has 383 employees operating in 5 locations in the U.S. and provides billing and accounts receivable management services for over US$1.3 billion of physician charges annually. Springfield offers practice management services including patient scheduling, coding and compliance assistance consulting and specialized reporting services. Springfield is known for its superior operational capability on the GE Centricity Business System (formerly known as IDX Flowcast) and EPIC, two of the leading platforms in the industry, strong client relationships and experienced management team.

Piltel's Equity Restructuring

On April 20, 2007, the Securities and Exchange Commission approved Piltel's request to undergo equity restructuring to eliminate the deficit of Piltel as of December 31, 2006 amounting to Php22,251 million against the additional paid-in capital. The equity restructuring was approved by Piltel's Board of Directors on March 5, 2007.

Asia-America Gateway Submarine Cable System

On May 2, 2007, a consortium of major international telecommunication operators, including PLDT, signed an agreement to build the first high-bandwidth optical fiber submarine cable system linking Southeast Asia and the U.S. The cable project, known as the *Asia-America Gateway,* will span 20,000 kilometers and will use the latest Dense Wavelength Division Multiplexing, or DWDM, technology to provide upgradeable, future proof transmission facilities that will support bandwidth requirements for new and revolutionary broadband applications. It is expected that the *Asia-America Gateway* will cost approximately US$500 million (of which Php50 million represents PLDT's investment) and will be ready for service by the end of 2008.

Related Party Transactions

Cooperation Agreement with First Pacific and certain affiliates, or FP Parties, NTT Communications and DoCoMo

In connection with the transfer by NTT Communications Corporation, or NTT Communications, of approximately 12.6 million shares of PLDT's common stock to NTT DoCoMo, Inc, or DoCoMo, pursuant to a Stock Sale and Purchase Agreement dated January 31, 2006 between NTT Communications and DoCoMo, the FP Parties, NTT Communications and DoCoMo entered into a Cooperation Agreement, dated January 31, 2006. Under the Cooperation Agreement, the relevant parties extended certain rights of NTT Communications under the Stock Purchase and Strategic Investment Agreement dated September 28, 1999, as amended, and the Shareholders Agreement dated March 24, 2000, to DoCoMo, including:

- certain contractual veto rights over a number of major decisions or transactions; and
- rights relating to the representation on the board of directors of PLDT and Smart, respectively, and any committees thereof.

Key provisions of the Cooperation Agreement pertain to, among other things, restrictions on the ownership of shares of PLDT by NTT Communications and DoCoMo, limitation on competition, business cooperation, additional rights of DoCoMo, change in control and termination. See *Note 20 – Related Party Transactions* to the accompanying unaudited consolidated financial statements for further details.

Integrated i-mode Services Package Agreement between DoCoMo and Smart – An Integrated i-mode Services Package Agreement was entered into by Smart and DoCoMo on February 15, 2006, under which DoCoMo agreed to grant Smart, on an exclusive basis within the territory of the Philippines for a period of five years, an integrated i-mode services package including a non-transferable license to use the licensed materials and the i-mode brand, as well as implementation support and assistance and post-commercial launch support from DoCoMo. Pursuant to this agreement, Smart is required to pay an initial license fee and running royalty fees based on the revenue arising from i-mode subscription fees and data traffic. Outstanding obligation under this agreement amounted to Php48 million and Php53 million as at March 31, 2007 and December 31, 2006, respectively.

Advisory Services Agreement between DoCoMo and PLDT — An Advisory Services Agreement was entered into by DoCoMo and PLDT on June 5, 2006, in accordance with the Cooperation Agreement between PLDT and DoCoMo. Pursuant to the agreement, DoCoMo will provide the services of certain key personnel in connection with certain aspects of the business of PLDT and Smart. Also, the agreement governs the terms and conditions of the appointments and the corresponding fees related thereto. Total fees under this agreement for the three months ended March 31, 2007 amounted to Php19 million. Outstanding liability under this agreement amounted to Php19 million and Php32 million as at March 31, 2007 and December 31, 2006, respectively.

Other Agreements with NTT Communications and/or its Affiliates — Under certain agreements, (1) NTT Communications provides advisory services for various business areas of PLDT; (2) PLDT is licensed to market managed data and other services using NTT Communications' Arcstar brand; and (3) PLDT and NTT Communications agreed to cooperative arrangements for conventional international telecommunications services. Total fees under these agreements totaled Php61 million and Php51 million for the three months ended March 31, 2007 and 2006, respectively. PLDT's outstanding obligations under these agreements amounted to Php29 million and Php18 million as at March 31, 2007 and December 31, 2006, respectively.

Agreements between Smart and Asia Link B.V., or ALBV — Under certain agreements, ALBV undertakes to provide technical support services and assistance in the operations and maintenance of Smart's cellular business. Total fees under these agreements totaled Php165 million and Php142 million for the three months ended March 31, 2007 and 2006, respectively. Outstanding obligations of Smart under these agreements amounted to Php137 million and Php62 million as at March 31, 2007 and 2006, respectively. Outstanding prepaid management fees as at March 31, 2007 and December 31, 2006 amounted to Php856 million and Php869 million, respectively. ALBV is a subsidiary of the First Pacific Group.

Agreements relating to insurance companies — Gotuaco del Rosario and Associates, or Gotuaco, acts as the broker for certain insurance companies to cover certain insurable properties of the PLDT Group. Insurance premiums are remitted to Gotuaco and the broker's fees are settled between Gotuaco and the insurance companies. In addition, PLDT has an insurance policy with Malayan Insurance Co., Inc., or Malayan, wherein premiums are directly paid to Malayan. Total insurance expenses paid under these agreements amounted to Php119 million and Php105 million for the three months ended March 31, 2007 and 2006, respectively. Two directors of PLDT have a direct/indirect interest in or serve as a director/officer of Gotuaco and Malayan.

For a more detailed discussion of the related party transactions enumerated above, see *Note 20 –Related Party Transactions* to the accompanying unaudited consolidated financial statements.